

**MANAGEMENT PROXY AND INFORMATION CIRCULAR**

**and**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**of**

**IRON SPRINGS CAPITAL CORP.**

The meeting to be held on November 14, 2005

*Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the Proposed Qualifying Transaction described in this management proxy and information circular.*

This management proxy and information circular is furnished in connection with the solicitation of proxies by management of Iron Springs Capital Corp. to be voted at a special meeting of the shareholders of Iron Springs Capital Corp. to be held on November 14, 2005, or any adjournment thereof.

Dated as of October 17, 2005

**IRON SPRINGS CAPITAL CORP.**

**NOTICE OF SPECIAL MEETING OF HOLDERS OF COMMON SHARES TO BE HELD ON  
NOVEMBER 14, 2005**

**TO THE HOLDER OF COMMON SHARES**

Notice is hereby given that a special meeting (the “**Meeting**”) of the holders of common shares (“**IS Shares**”) of Iron Springs Capital Corp. (the “**Corporation**” or “**Iron Springs**”) will be held at the offices of the solicitors of the Corporation, Borden Ladner Gervais LLP, 1000 Canterra Tower, 400 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, T2P 4H2, at 10:00 a.m. (Calgary time), on November 14, 2005 for the following purposes:

1. to consider and, if thought appropriate, to pass, with or without a variation, a special resolution of the shareholders, as more particularly set forth in the management information circular of the Corporation (the “**Circular**”) to approve the continuance of the Corporation under the *Canada Business Corporations Act* (the “**CBCA**”);
2. to consider and, if thought appropriate, to pass, with or without variation, a special resolution of the shareholders, as more particularly set forth in the Circular, to approve the amalgamation agreement (“**Amalgamation Agreement**”) between the Corporation and Kaboose Inc. (“**Kaboose**”) pursuant to which the Corporation and Kaboose will amalgamate (the “**Amalgamation**”) and continue as one corporation (“**Amalco**”) pursuant to the provisions of the CBCA;
3. to consider and, if thought appropriate, to pass, with or without variation, a special resolution of the shareholders, as more particularly set forth in the Circular, authorizing the board of directors of the Corporation to amend the Corporation’s articles to effect the change of name of the Corporation to “**Kaboose Inc.**”, or such other name as may be accepted by the relevant regulatory authorities and approved by the board of directors;
4. to consider and, if thought appropriate, to pass, with or without variation, an ordinary resolution approving the reappointment of Davidson & Company LLP, Chartered Accountants, as auditors of the Corporation and to authorize the board of directors to fix the remuneration of the auditors;
5. to fix the number of directors to be elected at the Meeting at five (5) members;
6. to elect the board of directors of the Corporation for the ensuing year;
7. to consider and, if thought appropriate, to pass an ordinary resolution, as more particularly set forth in the Circular, relating to the adoption, approval and ratification of the stock option plan of the Corporation; and
8. to transact any such other business as may properly be brought before the Meeting or any adjournment thereof.

The nature of the business to be transacted at the Meeting and the specific details regarding the Proposed Qualifying Transaction and Amalgamation are described in further detail in the accompanying Circular dated October 17, 2005, including the schedules thereto.

If the Continuance or the Amalgamation becomes effective, a holder of IS Shares who dissents in respect of the Amalgamation or Continuance will be entitled to be paid the fair value of their IS Shares in accordance with section 191 of the ABCA or section 190 of the CBCA, respectively. Failure by a dissenting shareholder of IS Shares to adhere strictly to the requirements of section 191 of the ABCA or section 190 of the CBCA, as applicable, may result in the loss of such rights of dissent. See “*Part II - Amalgamation of Iron Springs and Kaboose - Dissent Rights*”.

The record date for the determination of shareholders entitled to receive notice of and to vote at the Meeting or any adjournment thereof is October 14, 2005 (the “Record Date”). Shareholders of the Corporation whose names have been entered in the register of shareholders at the close of business on that date will be entitled to receive notice of and to vote at the Meeting, provided that, to the extent a shareholder transfers the ownership of any of his or her shares after such date and the transferee of those shares establishes that he or she owns the shares and requests, not later than 10 days before the Meeting, to be included in the list of shareholders eligible to vote at the Meeting, such transferee will be entitled to vote those shares at the Meeting.

A registered shareholder may attend the Meeting in person or may be represented by proxy. Shareholders who are unable to attend the Meeting or any adjournment thereof in person are requested to date, execute and return the accompanying form of proxy for use at the Meeting or any adjournment thereof. To be effective, the enclosed proxy must be mailed so as to reach or be deposited with Computershare Trust Company of Canada, 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department, not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays) prior to the time set for the Meeting or any adjournment thereof.

The instrument appointing the proxy shall be in writing and shall be executed by the shareholder or his or her attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal by an officer or attorney thereof duly authorized.

The persons named in the enclosed form of proxy are directors and/or officers of the Corporation. Each shareholder has the right to appoint a proxyholder other than such persons, who need not be a shareholder, to attend and to act for him or her and on his or her behalf at the Meeting. To exercise such right, the names of the nominees of management should be crossed out and the name of the shareholder’s appointee should be legibly printed in the blank space provided.

**DATED** at Vancouver, British Columbia, this 17<sup>th</sup> day of October, 2005.

**BY ORDER OF THE BOARD OF DIRECTORS**

*“Signed”*

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**A. Murray Sinclair**

President and Chief Executive Officer

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**CERTIFICATE OF KABOOSE INC.**



## GLOSSARY

Unless the context otherwise provides, the following terms used in this management proxy and information circular and the Schedules hereto shall have the meanings ascribed to them as set forth below:

“**ABCA**” means the *Business Corporations Act* (Alberta), R.S.A. 2000 c.B-9, as amended, including all regulations promulgated thereunder;

“**Affiliate**” means a Company that is affiliated with another Company as described below:

A Company is an “Affiliate” of another Company if:

- (a) one of them is the subsidiary of the other, or
- (b) each of them is controlled by the same Person.

A Company is “controlled” by a Person if:

- (a) voting securities of the Company are held, other than by way of security only, by or for the benefit of that Person, and
- (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the Company.

A Person beneficially owns securities that are beneficially owned by:

- (a) a Company controlled by that Person, or
- (b) an Affiliate of the person or an Affiliate of any Company controlled by that Person;

“**Agent**” means GMP Securities Ltd.;

“**Amalco**” means “Kaboose Inc.”, the corporation to be formed by the amalgamation of the Corporation and Kaboose pursuant to the provisions of the CBCA;

“**Amalco Agent’s Options**” means the options to purchase Amalco Shares to be issued to the former holder of the IS Agent’s Options pursuant to the terms of the Amalgamation Agreement;

“**Amalco Broker’s Warrants**” means the broker’s warrants to be issued to the former holders of the Kaboose Broker’s Warrants pursuant to the terms of the Amalgamation Agreement;

“**Amalco Compensation Options**” means the compensation options to be issued to the former holders of the Kaboose Compensation Options pursuant to the terms of the Amalgamation Agreement;

“**Amalco Options**” means the options to purchase Amalco Shares to be issued to the former holders of the IS Options and the Kaboose Options pursuant to the terms of the Amalgamation Agreement;

“**Amalco Securities**” means collectively, the Amalco Shares, the Amalco Options, the Amalco Agent’s Options, the Amalco Broker’s Warrants, the Amalco Compensation Options and the Amalco Warrants to be issued pursuant to the terms of the Amalgamation Agreement;

“**Amalco Shares**” means the common shares in the capital of Amalco to be issued to the former holders of IS Shares and Kaboose Shares pursuant to the terms of the Amalgamation Agreement;

“**Amalco Warrants**” means the warrants to purchase Amalco Shares to be issued to the former holders of the Kaboose Warrants pursuant to the terms of the Amalgamation Agreement;

“**Amalgamation**” means the amalgamation of the Corporation and Kaboose under Section 183 of the CBCA, on the terms and conditions set forth in the Amalgamation Agreement;

“**Amalgamation Agreement**” means the amalgamation agreement to be entered into between the Corporation and Kaboose respecting the Amalgamation, in substantially the form attached hereto as Schedule 1, and includes any agreement or instrument supplementary or auxiliary thereto;

“**Amalgamation Date**” means the date that the Amalgamation becomes effective in accordance with the provisions of the CBCA;

“**Associate**” when used to indicate a relationship with a Person or Company, means:

- (a) an issuer of which the Person or Company beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer,
- (b) any partner of the Person or Company,
- (c) any trust or estate in which the Person or Company has a substantial beneficial interest or in respect of which a person or Company serves as trustee or in a similar capacity,
- (d) in the case of a Person, a relative of that Person, including
  - (i) that Person’s spouse or child, or
  - (ii) any relative of the Person or of his spouse who has the same residence as that Person,but
- (e) where the Exchange determines that two Persons shall, or shall not, be deemed to be Associates with respect to a Member firm, Member corporation or holding company of a Member corporation, then such determination shall be determinative of their relationship in the application of Exchange Rule D with respect to that Member firm, Member corporation or holding company;

“**Beneficial Shareholder**” means a shareholder whose shares are not held in its own name but are registered in the name of a person or entity who is holding such shares on behalf of such beneficial shareholder;

“**Business Day**” means a day on which commercial banks are generally open for business in Toronto, Ontario other than a Saturday, Sunday or a day observed as a holiday in Toronto, Ontario under the laws of the Province of Ontario or federal laws of Canada;

“**CBCA**” means the *Canada Business Corporations Act* (Canada), R.S. 1985, c. C-44, as amended, including all regulations promulgated thereunder;

“**CPC**” means a corporation:

- (a) that has been incorporated or organized in a jurisdiction in Canada;
- (b) that has filed and obtained a receipt for a preliminary prospectus from one or more of the securities regulatory authorities in compliance with Policy 2.4; and
- (c) in regard to which the Completion of the Qualifying Transaction has not yet occurred;

“**CRA**” means the Canada Revenue Agency;

“**Certificate of Amalgamation**” means the certificate issued in respect of the Amalgamation under the CBCA;

“**Circular**” means this management proxy and information circular of the Corporation including the Schedules attached hereto;

“**Company**” unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association or other entity other than an individual;

“**Completion of the Qualifying Transaction**” means the date the Final Exchange Bulletin is issued by the Exchange;

“**Computershare**” means Computershare Trust Company of Canada, the transfer agent and registrar of the Corporation;

“**Continuance**” means the continuance of the Corporation under the provisions of the CBCA;

“**Control Person**” means any Person or Company that holds or is one of a combination of Persons or Companies that holds a sufficient number of securities of an Issuer so as to affect materially the control of that Issuer, or that holds more than 20% of the outstanding securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the Issuer;

“**Corporation**” or “**Iron Springs**” means Iron Springs Capital Corp., a corporation incorporated pursuant to the provisions of the ABCA and having its head office in the City of Vancouver in the Province of British Columbia;

“**Dissenting Shareholder**” means an IS Shareholder that validly exercises the rights of dissent under the ABCA and CBCA in respect of the Continuance and Amalgamation, respectively;

“**Effective Date**” means the effective date of the Amalgamation;

“**Effective Time**” means the time of the Amalgamation;

“**Equity**” means Equity Transfer Services Inc.;

“**Escrow Agreement**” means the escrow agreement dated June 14, 2005 among the Corporation, Computershare and certain securityholders of the Corporation;

“**Exchange**” means the TSX Venture Exchange Inc.;

“**Final Exchange Bulletin**” means the Exchange Bulletin which is issued following closing of the Qualifying Transaction and the submission of all required documentation and that evidences final Exchange acceptance of the Qualifying Transaction;

“**Insider**” if used in relation to an Issuer, means:

- (a) a director or senior officer of the Issuer,
- (b) a director or senior officer of the Company that is an Insider or subsidiary of the Issuer;
- (c) a Person that beneficially owns or controls, directly or indirectly, Voting Shares carrying more than 10% of the voting rights attached to all outstanding Voting Shares of the Issuer, or
- (d) the Issuer itself if it holds any of its own securities;

“**Instrument of Proxy**” means the instrument of proxy accompanying this Circular with respect to the Meeting;

“**IS Agent’s Options**” means the options granted to Haywood Securities Inc. and its sub-agents in connection with the Corporation’s initial public offering, to acquire up to 100,000 IS Shares at any time until July 13, 2007 at an exercise price of \$0.25 per IS Share;

“**IS Options**” means the options to purchase 150,000 IS Shares at an exercise price of \$0.25 per IS Share granted to the directors and officers of the Corporation;

“**IS Securities**” means collectively the IS Shares, the IS Options and the IS Agent’s Options;

“**IS Shareholder**” means a common shareholder of the Corporation;

“**IS Shares**” means the common shares in the capital of the Corporation that are currently issued and outstanding;

“**ITA**” means the *Income Tax Act* (Canada), as amended;

“**Kaboose**” means Kaboose Inc., a corporation existing under the provisions of the CBCA with a registered and records office located in the City of Toronto, in the Province of Ontario;

“**Kaboose Broker Warrants**” means the 100,097 common share broker warrants granted to the Agent issued and outstanding granted and which expire on the earlier of May 18, 2007 or 12 months after the completion of a going-public transaction;

“**Kaboose Compensation Options**” means the agent options to purchase up to 868,000 Kaboose Shares to be granted to the Agent upon closing of the Kaboose Private Placement;

“**Kaboose Options**” means the 1,888,720 options to purchase 5,855,032 Kaboose Shares issued and outstanding which have been granted to the directors, officers, consultants and employees of Kaboose;

“**Kaboose Private Placement**” means the “best efforts” agency offering of Subscription Receipts of Kaboose by the Agent to close after the Kaboose Stock Split and preceding the Amalgamation and raising aggregate proceeds of up to \$10,000,000;

**“Kaboose Securities”** means collectively, the Kaboose Shares, the Kaboose Options, the Kaboose Compensation Options, the Kaboose Warrants and the Kaboose Broker Warrants;

**“Kaboose Shareholders Meeting”** means the shareholders meeting of Kaboose scheduled to be held on October 26, 2005, wherein the Kaboose shareholders will consider, among other matters, the Kaboose Stock Split and the Amalgamation;

**“Kaboose Shares”** means the common shares, on a post Kaboose Stock Split basis, in the capital of Kaboose issued and outstanding immediately preceding the completion of the Amalgamation and includes those common shares to be issued as a result of the conversion of all Class A Preferred Shares of Kaboose, Class B Preferred Shares of Kaboose, Special Warrants and Subscription Receipts currently outstanding, all such securities to convert into Kaboose Shares, for no additional consideration, preceding completion of the Amalgamation. **All references to Kaboose Shares are on a post Kaboose Stock Split basis, unless specifically referred to otherwise;**

**“Kaboose Stock Split”** means the split of the common shares of Kaboose on the basis of 1 old common share for 3.1 new common shares to be presented to the shareholders of Kaboose at the Kaboose Shareholders Meeting;

**“Kaboose Warrants”** means the 123,333 Series A common share purchase warrants of Kaboose issued and outstanding and which expire on September 26, 2008 entitling the holders to acquire an aggregate of 382,332 Kaboose Shares;

**“Kaboose Value Escrow Agreement”** means a value security escrow agreement to be dated concurrently with the completion of the Amalgamation, in the form prescribed by the Exchange between Amalco, certain shareholders of Amalco and Equity Transfer acting as escrow agent;

**“Management Designees”** means those individuals named as management designees in the Instrument of Proxy accompanying the Notice of Meeting;

**“Meeting”** means the special meeting of the IS Shareholders described in the Notice of Meeting and the Circular;

**“Non-Arm’s Length Party”** means in relation to a Company, a promoter, officer, director, other Insider or Control Person of the Company (including an Issuer) and any Associates or Affiliates of such Persons. In relation to an individual, means any Associate of the individual or any Company of which the individual is a promoter, officer, director, Insider or Control Person;

**“Non-Arm’s Length Qualifying Transaction”** means a proposed Qualifying Transaction where the same party or parties or their respective Associates and Affiliates are Control Persons in both the CPC and in relation to the Significant Assets which are to be the subject of the proposed Qualifying Transaction;

**“Notice of Meeting”** means the notice of the special meeting of the holders of IS Shares which accompanies this Circular;

**“Ordinary Resolution”** means a resolution passed by a majority of the votes cast by IS Shareholders who voted in respect of the resolution;

**“Person”** means a Company or an individual;

“**Policies**” means the policies of the Exchange;

“**Policy 2.4**” means Policy 2.4 of the Exchange – *Capital Pool Companies*, as may be amended from time to time;

“**Proposed Qualifying Transaction**” means the Amalgamation of the Corporation and Kaboose wherein the Corporation will acquire 100% of the issued and outstanding securities of Kaboose, which will constitute the Qualifying Transaction of the Corporation pursuant to Policy 2.4;

“**Qualifying Transaction**” means a transaction where a CPC acquires Significant Assets other than cash, by way of purchase, amalgamation, merger or arrangement with another company or by other means;

“**Qualifying Transaction Agreement**” means the qualifying transaction agreement dated October 17, 2005 between the Corporation, Kaboose and Jason DeZwirek as the principal shareholder of Kaboose, governing the terms and conditions of the Proposed Qualifying Transaction;

“**Record Date**” means the record date for the Meeting being October 14, 2005;

“**Resulting Issuer**” means the issuer that was formerly a CPC that exists upon issuance of the Final Exchange Bulletin and specifically, Amalco upon completion of the Proposed Qualifying Transaction;

“**Significant Assets**” means one or more assets or businesses which, when purchased, optioned or otherwise acquired by the CPC, together with any other concurrent transactions, would result in the CPC meeting the minimum listing requirements of the Exchange;

“**Special Resolution**” means a resolution passed by a majority of not less than 2/3 of the votes cast by the security holders entitled to vote and who voted in respect of that resolution;

“**Special Warrants**” means special warrants of Kaboose, wherein each Special Warrant entitles the holder to receive, without payment of any further consideration (pre Kaboose Stock Split), one Kaboose Share at any time before February 18, 2006, 1.10 common shares (pre Kaboose Stock Split), if exercised after February 18, 2006 but before March 31, 2006 and 1.18 common shares (pre Kaboose Stock Split) if exercised thereafter;

“**Sponsor**” has the meaning specified in Exchange Policy 2.2 - *Sponsorship and Sponsorship Requirements*;

“**Subscription Receipts**” means up to 12,400,000 Kaboose subscription receipts offered on a post Kaboose Stock Split basis pursuant to the Kaboose Private Placement;

“**Target Company**” means a Company to be acquired by the CPC as its Significant Asset pursuant to a Qualifying Transaction, and for the purposes of this Circular, means Kaboose; and

“**U.S.**” or “**United States**” means the United States of America.

Words importing the singular number only include the plural and vice versa, and words importing any gender include all genders.

All dollars amounts herein are in Canadian dollars, unless otherwise stated.

## **SUMMARY**

*The following is a summary of information relating to the Corporation, Kaboose and the Resulting Issuer and should be read together with the more detailed information and financial data and statements contained elsewhere in this Circular. Capitalized terms used in this summary will have the meaning provided in the Glossary or elsewhere in this Circular. This summary is provided for convenience of reference only. IS Shareholders are urged to review the Circular and the accompanying Schedules in their entirety.*

## **THE MEETING**

The Meeting will be held on November 14, 2005, at the offices of Borden Ladner Gervais LLP, 1000 Canterra Tower, 400 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, at 10:00 a.m. (Calgary time). At the Meeting, the IS Shareholders will be asked to approve the Continuance of the Corporation under the provisions of the CBCA and to approve the Amalgamation of the Corporation and Kaboose. The Continuance and the Amalgamation must be approved by the IS Shareholders by way of Special Resolution. Pursuant to the provisions of the ABCA and the CBCA, those IS Shareholders who dissent with respect to the Continuance and the Amalgamation, respectively, have the right to be paid the fair value of their IS Shares.

In addition, IS Shareholders will be asked to approve resolutions to fix the number of directors of the Corporation, to elect the directors of the Corporation, to appoint the auditors, to change the name of the Corporation and to adopt the Corporation's stock option plan. See "*Part III - Matters to be Acted Upon at the Meeting*".

## **MEETING RECORD DATE**

The Corporation has fixed October 14, 2005 as the record date for the Meeting for determining the IS Shareholders entitled to receive notice of and to vote at the Meeting.

## **PROPOSED QUALIFYING TRANSACTION**

The Corporation and Kaboose have entered into the Qualifying Transaction Agreement, which supersedes a prior letter agreement between the Corporation and Kaboose dated August 11, 2005. Under the terms of the Qualifying Transaction Agreement, the Corporation and Kaboose shall combine by way of an amalgamation and continue as Amalco. It is intended that the Amalgamation will constitute the Corporation's Qualifying Transaction pursuant to Policy 2.4.

Pursuant to the Amalgamation, all of the issued and outstanding IS Securities and Kaboose Shares will be exchanged for corresponding securities of Amalco on a 1 to 1 basis, at a deemed price of \$0.70 per Amalco Share. In addition, as a result of the Kaboose Stock Split, the convertible securities of Kaboose, which are subject to the Amalgamation, will be exchanged for corresponding securities of Amalco on a 1 to 3.1 basis. Specifically, pursuant to the terms of the Amalgamation Agreement, Amalco will issue:

- (i) 1 Amalco Share for every 1 IS Share issued and outstanding on the Effective Date at a deemed price of \$0.70 per Amalco Share and an aggregate deemed price of \$1,624,000;
- (ii) 1 Amalco Option for every 1 IS Option issued and outstanding on the Effective Date with the same terms as the IS Options being exchanged;

- (iii) 1 Amalco Agent’s Option for every 1 IS Agent’s Option issued and outstanding on the Effective Date with the same terms as the IS Agent’s Options being exchanged;
- (iv) 1 Amalco Share for every 1 Kaboose Share issued and outstanding on the Effective Date at a deemed price of \$0.70 per Amalco Share and an aggregate deemed price of \$39,426,389;
- (v) 3.1 Amalco Options for every 1 Kaboose Option issued and outstanding on the Effective Date with the same terms as the Kaboose Options being exchanged;
- (vi) 1 Amalco Compensation Option for every 1 Kaboose Compensation Option issued and outstanding on the Effective Date with the same terms as the Kaboose Compensation Options being exchanged. The Kaboose Compensation Options will be issued subsequent to the Kaboose Stock Split and therefore its conversion ratio is disclosed as 1 to 1 for a Kaboose Share;
- (vii) 3.1 Amalco Broker’s Warrants for every 1 Kaboose Broker Warrant issued and outstanding on the Effective Date with the same terms as the Kaboose Broker Warrants being exchanged; and
- (viii) 3.1 Amalco Warrants for every 1 Kaboose Warrant issued and outstanding on the Effective Date with the same terms as the Kaboose Investor Warrants being exchanged.

**The Proposed Qualifying Transaction is not a Non-Arm’s Length Qualifying Transaction. The Proposed Qualifying Transaction is subject to a number of conditions, including but not limited to, receipt of approval by the Exchange, approval of the Continuance and the Amalgamation by the IS Shareholders and approval of the Amalgamation by the shareholders of Kaboose. See “Part II - Amalgamation of Iron Springs and Kaboose” and “Part III - Matters to be Acted Upon at the Meeting”.**

#### INTERESTS OF INSIDERS

The following table sets forth the number of IS Shares and Kaboose Shares currently being held by the proposed directors, officers and insiders and their Associates and Affiliates of the Resulting Issuer, and the number of Amalco Shares expected to be held by the proposed directors, officers and insiders and their Associates and Affiliates of the Resulting Issuer upon completion of the Amalgamation.

Proposed Directors and Officers	Number of IS Shares Owned <sup>(1)</sup>	Number of Kaboose Shares Owned <sup>(2)</sup>	Number and Percentage of Amalco Shares Held or Controlled Upon Completion of the Amalgamation <sup>(3)</sup>
<b>Jason DeZwirek</b> Proposed Chief Executive Officer and Director of the Resulting Issuer	Nil	19,607,838 <sup>(4)</sup> (34.8%)	19,607,838 (33.4%)
<b>Jonathan Graff</b> Proposed President and Director of the Resulting Issuer	Nil	335,832 (< 1%)	335,832 (< 1%)



<b>Proposed Directors and Officers</b>	<b>Number of IS Shares Owned<sup>(1)</sup></b>	<b>Number of Kaboose Shares Owned<sup>(2)</sup></b>	<b>Number and Percentage of Amalco Shares Held or Controlled Upon Completion of the Amalgamation<sup>(3)</sup></b>
<b>A. Murray Sinclair</b> Proposed Director of the Resulting Issuer	40,000 <sup>(5)</sup> (1.7%)	Nil	40,000 (< 1%)
<b>K. Peter Miler</b> Proposed Director of the Resulting Issuer	40,000 <sup>(5)</sup> (1.7%)	Nil	40,000 (< 1%)
<b>Michael Winton</b> Proposed Director of the Resulting Issuer	Nil	88,868 (< 1%)	88,868 (< 1%)
<b>Jonathan Pollack</b> Proposed Chief Financial Officer of the Resulting Issuer	Nil	Nil	Nil

**Notes:**

- (1) Assumes 2,320,000 IS Shares outstanding and does not include warrants, options or other convertible securities held.
- (2) Assumes 56,323,413 Kaboose Shares outstanding immediately preceding the completion of the Amalgamation as a result of the conversion of all Class A Preferred shares, Class B Preferred shares, Special Warrants and Subscription Receipts currently issued and outstanding, all such securities to convert into Kaboose Shares on a 1-for-3.1 basis as a result of the Kaboose Stock Split, for no consideration, preceding completion of the Amalgamation.
- (3) Assumes 58,643,413 Amalco Shares outstanding and assumes that the proposed directors and officers of the Resulting Issuer do not participate in the Kaboose Private Placement.
- (4) The 19,607,838 Kaboose Shares noted as controlled by Jason DeZwirek include 2,825,821 Kaboose Shares and include 16,782,017 Kaboose Shares to be issued upon conversion of 961,382 Class A Preferred Shares held by him personally and also includes 3,118,838 Class A Preferred Shares and 1,333,334 Class B Preferred Shares owned by Green Diamond Oil Corp., a corporation of which Jason DeZwirek is an officer and director.
- (5) Quest Capital Corp., of which Mr. Sinclair is a director, owns 1,000,000 IS Shares in the capital of the Corporation. Mr. Miller is an officer of a subsidiary of Quest Capital Corp.

**Selected Pro Forma Consolidated Financial Information of the Resulting Issuer as at July 31, 2005 (unaudited)**

The following table sets out certain financial information for Amalco after giving effect to the Proposed Qualifying Transaction and assuming completion of the Kaboose Private Placement:

Current Assets	\$14,887,131
Total Assets	\$16,174,310
Current Liabilities	\$956,421
Long Term Liabilities	\$109,030
Share Capital	\$19,644,487
Retained Earnings (Deficit)	\$(5,078,629)

For further information, please see the Pro Forma Financial Statements attached as Schedule 4 to this Circular.

## **Available Funds**

Upon completion of the Amalgamation and based on the unaudited working capital of the Corporation and Kaboose as at July 31, 2005, the Resulting Issuer will have approximately \$13,930,710 of estimated funds available. The estimated funds available are anticipated to be allocated for funding operating losses and general working capital and potential acquisitions. Additional amounts have been allocated for costs required to complete the Amalgamation and for unallocated working capital. There may be circumstances where for sound business reasons, a reallocation of funds may be necessary in order for the Resulting Issuer to achieve its stated business objectives. The Resulting Issuer's working capital available to fund ongoing operations should be sufficient to meet its administration costs for more than 12 months. See "*Part VI – Information Concerning the Resulting Issuer*" in this Circular.

## **Market Trading Price**

The IS Shares are listed and posted for trading on the Exchange under the stock symbol "ISP.P". The IS Shares were first listed on the Exchange on July 13, 2005. The last market trading price on October 14, 2005 (the last trading day prior to October 17, 2005) at which a trade in IS Shares was executed was \$1.30 on a volume of 11,500 IS Shares. Trading of the IS Shares was halted on August 11, 2005 pending the announcement of the Amalgamation as the Corporation's Qualifying Transaction and resumed trading on September 7, 2005 following an Exchange Bulletin dated September 6, 2005. There is currently no public market for the Kaboose Shares.

## **Sponsor**

No Sponsor has been retained in connection with the Qualifying Transaction as the Exchange has waived the Sponsorship requirement.

## **Conflicts of Interest**

The directors and officers of the Corporation are also directors and officers of other companies. As such, situations may arise where the directors and officers of the Corporation may be in conflict with the Corporation. Conflicts, if any, will be subject to the procedures as provided under the ABCA and or CBCA, as applicable.

## **Risk Factors**

Amalco will be subject to numerous risk factors. See "*Part II – Amalgamation of Iron Springs and Kaboose - Risk Factors*".

## **Canadian Federal and Other Income Tax Considerations**

Holders of IS Shares and IS Options will generally not realize any taxable gain or loss on the Amalgamation. See "*Part II - Amalgamation of Iron Springs and Kaboose - Canadian Federal Income Tax Considerations*".

## **Conditional Listing Approval**

The Exchange has conditionally accepted the Proposed Qualifying Transaction as the Corporation's Qualifying Transaction subject to the Corporation fulfilling all of the requirements of the Exchange.

**PART I**  
**GENERAL PROXY INFORMATION FOR IRON SPRINGS CAPITAL CORP.**

**SOLICITATION OF PROXIES**

**THIS MANAGEMENT PROXY AND INFORMATION CIRCULAR IS PROVIDED IN CONNECTION WITH THE SOLICITATION BY MANAGEMENT OF IRON SPRINGS CAPITAL CORP.** of proxies, from the holders of IS Shares in respect of the special meeting of shareholders of IS Shares to be held on November 14, 2005, at 10:00 a.m. (Calgary time), or any adjournment thereof, at the offices of Borden Ladner Gervais LLP, 1000 Canterra Tower, 400 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, T2P 4H2, or at any adjournment thereof for the purposes set out in the accompanying Notice of Meeting.

Although it is expected that the solicitation of proxies will be primarily by mail, proxies may also be solicited personally or by telephone, facsimile or personal interview by regular employees of the Corporation, who will not be specifically remunerated. In accordance with National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*, arrangements have been made with brokerage houses and other intermediaries, clearing agencies, custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of the IS Shares held of record by such persons and the Corporation will reimburse such persons for reasonable fees and disbursements incurred by them in doing so. The costs of any such solicitation will be borne by the Corporation.

**APPOINTMENT AND REVOCATION OF PROXIES**

The persons named (the “**Management Designees**”) in the accompanying Instrument of Proxy have been selected by the management of the Corporation and have indicated their willingness to represent as proxy the shareholder who appoints them. An IS Shareholder has the right to designate a person (whom need not be a shareholder) other than the Management Designees to represent him or her at the Meeting. Such right may be exercised by inserting in the space provided for that purpose on the Instrument of Proxy the name of the person to be designated and by deleting therefrom the names of the Management Designees, or by completing another proper form of proxy and delivering the same to the transfer agent of the Corporation. Such shareholder should notify the nominee of the appointment, obtain the nominee’s consent to act as proxy and should provide instructions on how the shareholder’s IS Shares are to be voted. The nominee should bring personal identification with him or her to the Meeting. In any case, the form of proxy should be dated and executed by the shareholder or an attorney authorized in writing, with proof of such authorization attached, where an attorney executed the proxy form. In addition, a proxy may be revoked by an IS Shareholder personally attending at the Meeting and voting his or her IS Shares.

A form of proxy will not be valid for the Meeting or any adjournment thereof unless it is completed and delivered to the Corporation’s transfer agent, Computershare Trust Company of Canada, 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department, at least 48 hours, excluding Saturdays, Sundays and holidays, before the Meeting or any adjournment thereof. Late proxies may be accepted or rejected by the Chairman of the Meeting in his discretion, and the Chairman is under no obligation to accept or reject any particular late proxy.

An IS Shareholder who has given a proxy may revoke it as to any matter upon which a vote has not already been cast pursuant to the authority conferred by the proxy. In addition to revocation in any other manner permitted by law, a proxy may be revoked by depositing an instrument in writing executed by the shareholder or by his authorized attorney in writing, or, if the shareholder is a corporation, under its corporate seal by an officer or attorney thereof duly authorized, either at the registered office of the Corporation or with Computershare, at any time up to and including the last business day (as required by

the ABCA) preceding the date of the Meeting, or any adjournment thereof at which the proxy is to be used, or by depositing the instrument in writing with the Chairman of such Meeting on the day of the Meeting, or any adjournment thereof. In addition, a proxy may be revoked by the shareholder personally attending the Meeting and voting his or her IS Shares.

### ADVICE TO BENEFICIAL SHAREHOLDERS

**The information set forth in this section is of significant importance to many IS Shareholders, as a substantial number of IS Shareholders do not hold IS Shares in their own name.** IS Shareholders who hold their IS Shares through their brokers, intermediaries, trustees or other persons, or who otherwise do not hold their IS Shares in their own name (referred to in this Circular as “**Beneficial Shareholders**”) should note that only proxies deposited by shareholders who appear on the records maintained by the Corporation’s registrar and transfer agent as registered holders of IS Shares will be recognized and acted upon at the Meeting. If IS Shares are listed in an account statement provided to a Beneficial Shareholder by a broker, those IS Shares will, in all likelihood, *not* be registered in the shareholder’s name. Such IS Shares will more likely be registered under the name of the shareholder’s broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co. (the registration name for The Canadian Depository for Securities, which acts as nominee for many Canadian brokerage firms). IS Shares held by brokers (or their agents or nominees) on behalf of a broker’s client can only be voted (for or against resolutions) at the direction of the Beneficial Shareholder. Without specific instructions, brokers and their agents and their nominees are prohibited from voting shares for the broker’s clients. **Therefore, each Beneficial Shareholder should ensure that voting instructions are communicated to the appropriate person well in advance of the Meeting.**

Existing regulatory policy requires brokers and other intermediaries to seek voting instructions from Beneficial Shareholders in advance of shareholders’ meetings. The various brokers and other intermediaries have their own mailing procedures and provide their own return instructions to clients, which should be carefully followed by Beneficial Shareholders in order to ensure that their IS Shares are voted at the Meeting. The form of proxy supplied to a Beneficial Shareholder by their broker (or the agent of the broker) is substantially similar to the Instrument of Proxy provided directly to registered shareholders by the Corporation. However, its purpose is limited to instructing the registered IS Shareholder (i.e., the broker or agent of the broker) how to vote on behalf of the Beneficial Shareholder. The vast majority of brokers now delegate responsibility for obtaining instructions from clients to ADP Investor Communications (“**ADP**”) in Canada. ADP typically prepares a machine-readable voting instruction form, mails those forms to Beneficial Shareholders and asks Beneficial Shareholders to return the forms to ADP, or otherwise communicate voting instructions to ADP (by way of the Internet or telephone, for example). ADP then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting. **A Beneficial Shareholder who receives an ADP voting instruction form cannot use that form to vote their IS Shares directly at the Meeting. The voting instruction forms must be returned to ADP (or instructions respecting the voting of IS Shares must otherwise be communicated to ADP) well in advance of the Meeting in order to have the IS Shares voted. If you have any questions respecting the voting of IS Shares held through a broker or other intermediary, please contact that broker or intermediary for assistance.**

Although a Beneficial Shareholder may not be recognized directly at the Meeting for the purposes of voting IS Shares registered in the name of his broker, a Beneficial Shareholder may attend the Meeting as proxyholder for the registered shareholder and vote the IS Shares in that capacity. **Beneficial Shareholders who wish to attend the Meeting and indirectly vote their IS Shares as proxyholder for the registered shareholder, should enter their own names in the blank space on the form of proxy**

**provided to them and return the same to their broker (or the broker's agent) in accordance with the instructions provided by such broker.**

All references to shareholders in this Circular and the accompanying Instrument of Proxy and Notice of Meeting are to registered shareholders of the Corporation unless specifically stated otherwise.

### **VOTING OF PROXIES**

Each IS Shareholder may instruct his or her proxy how to vote his or her IS Shares by completing the blanks on the Instrument of Proxy. All IS Shares represented at the Meeting by a properly executed Instrument of Proxy will be voted (including the voting on any ballot), and where a choice with respect to any matter to be acted upon has been specified in the Instrument of Proxy, the IS Shares represented by the proxy will be voted in accordance with such specification. **In the absence of any such specification, the Management Designees, if named as proxy, will vote in favour of the matters set out therein.**

**The enclosed Instrument of Proxy confers discretionary authority upon the Management Designees, or other person named as proxy, with respect to amendments to or variations of matters identified in the Notices of Meeting and any other matters which may properly come before the Meeting. As of the date of this Circular, management are not aware of any amendments to, variations of or other matters which may come before the Meeting. In the event that other matters come before the Meeting, then the Management Designees intend to vote in accordance with the judgment of management.**

### **VOTING SHARES**

The Corporation is authorized to issue an unlimited number of IS Shares and an unlimited number of preferred shares, issuable in series. As at the date of this Circular, the Corporation has 2,320,000 IS Shares and no preferred shares issued and outstanding. There are no other voting securities outstanding of any class. Such IS Shares are the only shares entitled to be voted at the Meeting and holders of such shares are entitled to one vote for each share held.

The Corporation's transfer agent will prepare a list of shareholders of record at the close of business on the Record Date of October 14, 2005. A holder of IS Shares named on such list will be entitled to vote such IS Shares then registered in such holder's name at the Meeting, except to the extent that the holder transfers his or her shares after the close of business on the relevant record date and, in such event, the transferee of such shares shall be entitled to vote the transferred shares at the Meeting provided that he or she produces properly endorsed share certificates representing the transferred shares to the Secretary or transfer agent of the Corporation or otherwise establishes his or her ownership of the transferred shares at least 10 days prior to the Meeting.

### **QUORUM**

The by-laws of the Corporation provide that a quorum for the transaction of business at any meeting of shareholders of the Corporation shall be at least two persons holding or representing by proxy not less than 5% of the outstanding shares of the Corporation entitled to vote at the Meeting.

### **PRINCIPAL SHAREHOLDERS**

To the knowledge of the directors and senior officers of the Corporation, as at the date hereof, no person owns directly or indirectly, or exercises control or direction over, voting securities carrying more than 10% of the voting rights attached to all outstanding voting securities of the Corporation, except for Quest

Capital Corp., a publicly traded company, which as at the date hereof, owns 1,000,000 IS Shares which represents approximately 43.1% of the issued and outstanding IS Shares. A. Murray Sinclair, a director and officer of the Corporation, is also a director and Managing Director of Quest Capital Corp. K. Peter Miller, a director of the Corporation, is also an officer of a subsidiary of Quest Capital Corp.

## **PART II** **AMALGAMATION OF IRON SPRINGS AND KABOOSE**

### **Introduction**

The Corporation is a CPC as it is defined in Policy 2.4 of the Exchange. The Corporation's sole business to date has been to seek a party with which to complete a Qualifying Transaction pursuant to Policy 2.4. For further information on the Corporation, see "*Part IV - Information Regarding Iron Springs Capital Corp.*".

On August 11, 2005, the Corporation signed a letter of intent (the "**Letter of Intent**") with Kaboose, pursuant to which the Corporation and Kaboose agreed, in principle, to enter into a business combination transaction whereby the Corporation would acquire all of the issued and outstanding Kaboose Securities, subject to shareholder and regulatory approval. Kaboose is an online media and commerce company targeting kids and families throughout the world and is based in Toronto, Ontario. For further information on Kaboose, please see "*Part V - Information Regarding Kaboose Inc.*".

The Corporation and Kaboose entered into the Qualifying Transaction Agreement dated October 17, 2005, which supersedes the Letter of Intent. Under the terms of the Qualifying Transaction Agreement, the Corporation shall continue under the CBCA and the Corporation and Kaboose shall combine by way of Amalgamation and continue as Amalco. The Amalgamation will be completed in accordance with Policy 2.4 as the Qualifying Transaction of the Corporation. Pursuant to the Amalgamation, the IS Securities will be exchanged for Amalco Securities on a one-to-one ratio and the Kaboose Securities will be exchanged for Amalco Securities on a 3.1-to-one ratio.

The Corporation currently has 2,320,000 IS Shares, 150,000 IS Options and 100,000 IS Agent's Options issued and outstanding. Kaboose currently has 56,323,413 Kaboose Shares, 123,333 Kaboose Warrants, 100,097 Kaboose Broker Warrants and 1,888,720 Kaboose Options issued and outstanding. In addition, it is expected that after completion of the Kaboose Private Placement, Kaboose will have 868,000 Kaboose Compensation Options issued and outstanding. Pursuant to the Amalgamation, it is expected that Amalco will issue an aggregate of 58,643,413 Amalco Shares, 6,005,032 Amalco Options, 100,000 Amalco Agent's Options, 382,332 Amalco Warrants, 310,301 Amalco Broker's Warrants and 868,000 Amalco Compensation Options.

The Amalgamation was negotiated at arm's length between the parties.

### **Summary of the Amalgamation and Related Transactions**

The Corporation and Kaboose have entered into the Qualifying Transaction Agreement, which supersedes the Letter of Intent. Under the terms of the Qualifying Transaction Agreement, the Corporation shall discontinue out of the province of Alberta and shall continue under the provisions of the CBCA. Subsequent to the Continuance becoming effective, the Corporation and Kaboose shall combine by way of amalgamation and continue as Amalco. It is intended that the Amalgamation will constitute the Corporation's Qualifying Transaction and is subject to the final approval of the Exchange and will be completed in accordance with Policy 2.4 of the Exchange. At the Meeting, the IS Shareholders will be

asked to approve the Continuance of the Corporation under the CBCA and to approve the Amalgamation. The Amalgamation is also subject to approval by the shareholders of Kaboose.

Pursuant to the terms of the Qualifying Transaction Agreement, all of the outstanding IS Securities and Kaboose Shares will be exchanged for corresponding securities of Amalco on a 1 to 1 basis, at a deemed price of \$0.70 per Amalco Share. As a result of the Kaboose Stock Split, the convertible securities of Kaboose which are subject to the Amalgamation will be exchanged for corresponding securities of Amalco on a 1 to 3.1 basis. Specifically, Amalco will issue:

- (i) 1 Amalco Share for every 1 IS Share issued and outstanding on the Effective Date at a deemed price of \$0.70 per Amalco Share and an aggregate deemed price of \$1,624,000;
- (ii) 1 Amalco Option for every 1 IS Option issued and outstanding on the Effective Date with the same terms as the IS Options being exchanged;
- (iii) 1 Amalco Agent's Option for every 1 IS Agent's Option issued and outstanding on the Effective Date with the same terms as the IS Agent's Options being exchanged;
- (iv) 1 Amalco Share for every 1 Kaboose Share issued and outstanding on the Effective Date at a deemed price of \$0.70 per Amalco Share and an aggregate deemed price of \$39,426,389;
- (v) 3.1 Amalco Options for every 1 Kaboose Option issued and outstanding on the Effective Date with the same terms as the Kaboose Options being exchanged;
- (vi) 1 Amalco Compensation Option for every 1 Kaboose Compensation Option issued and outstanding on the Effective Date with the same terms as the Kaboose Compensation Options being exchanged. The Kaboose Compensation Options will be issued subsequent to the Kaboose Stock Split and therefore its conversion ratio is disclosed as 1 to 1 for a Kaboose Share;
- (vii) 3.1 Amalco Broker's Warrants for every 1 Kaboose Broker Warrant issued and outstanding on the Effective Date with the same terms as the Kaboose Broker Warrants being exchanged; and
- (viii) 3.1 Amalco Warrants for every 1 Kaboose Warrant issued and outstanding on the Effective Date with the same terms as the Kaboose Investor Warrants being exchanged.

Pursuant to the Amalgamation, Amalco will issue a total of 58,643,413 Amalco Shares for a total aggregate consideration of \$41,050,389, 382,332 Amalco Warrants, 310,301 Amalco Broker's Warrants, 6,005,032 Amalco Options, 868,000 Amalco Compensation Options and 100,000 Amalco Agent's Options.

Based on the above terms of the Amalgamation and related transactions, the order of the required events leading up to the Amalgamation are as follows:

- (a) The Meeting will be held on November 14, 2005, subject to any adjournment thereof. Assuming the IS Shareholders approve the transactions described herein, as applicable, and assuming the Kaboose Shareholders have approved the Amalgamation, the remaining events listed below will occur;

- (b) The Corporation will discontinue out of Alberta and will subsequently continue under the provisions of the CBCA;
- (c) The Amalgamation would close upon receipt of regulatory and security holders approval and satisfaction or waiver of all conditions precedent and the required documents will be filed pursuant to the CBCA to create Amalco;
- (d) Following completion of (a) to (c) above, certificates representing the IS Securities and Kaboose Securities will be exchanged for certificates representing the corresponding Amalco Securities; and
- (e) The appropriate filings will be made with the Exchange and the Final Exchange Bulletin approving the Amalgamation as the Corporation's Qualifying Transaction will be issued.

Kaboose completed a brokered private placement of 3,548,241 special warrants ("**Special Warrants**") on May 18, 2005 with GMP Securities Ltd. (the "**Agent**") acting as agent. Each Special Warrant will entitle the holder to receive, without payment of any further consideration, one common share of Kaboose at any time before February 18, 2006, 1.10 common shares, if exercised after February 18, 2006 but before March 31, 2006 and 1.18 common shares if exercised thereafter (all on a pre-Kaboose Stock Split basis). As a result, assuming the Proposed Qualifying Transaction closes prior to February 18, 2006, no more than 10,999,547 Amalco Shares will be issued to the former holders of the Special Warrants.

In addition, the Agent has been engaged to complete a second private placement (the "**Kaboose Private Placement**") of up to 12,400,000 Kaboose subscription receipts closing preceding the Amalgamation ("**Subscription Receipts**"). Each Subscription Receipt will be automatically exchanged for Kaboose Shares immediately prior to the completion of the Amalgamation and Amalco Shares of the Resulting Issuer will be issued in exchange of the Kaboose Shares underlying the Subscription Receipts. As a result, if fully sold by the Agent, no more than 12,400,000 Amalco Shares will be issued to the subscribers of the Kaboose Private Placement.

Detailed information regarding the business of the Corporation is contained in "*Part IV - Information Concerning Iron Springs Capital Corp.*". Detailed information regarding Kaboose and its business is contained in "*Part V - Information Regarding Kaboose Inc.*".

Audited financial statements for the Corporation for the period ended April 30, 2005 and unaudited financial statements for the Corporation for the period ended July 31, 2005 are attached hereto as Schedule 2. Audited financial statements for Kaboose for the years ended December 31, 2004, 2003 and 2002 and unaudited financial statements for the six months ended June 30, 2005 are attached hereto as Schedule 3.

### **Conditions of the Amalgamation**

Among other things, the closing of the Amalgamation is subject to:

- (a) the Continuance of the Corporation and the Amalgamation shall have been approved by not less than  $\frac{2}{3}$  of the votes cast by holders of IS Shares at the Meeting in accordance with applicable laws;
- (b) the Amalgamation and the Kaboose Stock Split shall have been approved by not less than  $\frac{2}{3}$  of the votes cast by holders of Kaboose Shares in accordance with applicable laws;



- (c) the Exchange shall have conditionally approved the Amalgamation as the Corporation's Qualifying Transaction;
- (d) the Exchange shall have conditionally approved the listing thereon of the Amalco Shares (i) to be issued pursuant to the Amalgamation as of the Effective Date, (ii) issuable upon the exercise of the Amalco Options, the Amalco Compensation Options and the Amalco Agent's Options granted in accordance with the Amalgamation Agreement, and (iii) issuable upon exercise of the Amalco Warrants and the Amalco Broker's Warrants to be issued in accordance with the Amalgamation Agreement;
- (e) Iron Springs shall have continued under the provisions of the CBCA;
- (f) Kaboose shall have filed articles of amendment and taken all other necessary steps to effect the Kaboose Stock Split;
- (g) Kaboose shall have converted all of the Class A Preferred Shares of Kaboose, the Class B Preferred Shares and Special Warrants into common shares of Kaboose;
- (h) all other appropriate regulatory approvals shall have been obtained or received from the persons having jurisdiction in the circumstances, and all other applicable regulatory requirements and conditions shall have been complied with, the failure to obtain which would, individually or in the aggregate, have a material adverse effect on the Corporation, Kaboose or Amalco after the Effective Time;
- (i) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated under the Amalgamation Agreement and there shall be no proceeding, whether of a judicial or administrative nature or otherwise, in progress that relates to or results from the transactions contemplated under the Amalgamation Agreement that would, if successful, result in an order or ruling that would preclude completion of the transactions contemplated under the Amalgamation Agreement in accordance with the terms and conditions hereof or thereof;
- (j) there shall not exist any prohibition at law against the completion of the Amalgamation;
- (k) none of the consents, orders, regulations or approvals contemplated herein shall contain terms or conditions or require undertakings or security deemed unsatisfactory or unacceptable by any of the parties hereto acting reasonably;
- (l) the Amalgamation Agreement and the Qualifying Transaction Agreement shall not have been terminated;
- (m) Amalco, upon completion of the Amalgamation, shall meet the minimum original listing requirements of the Exchange and the Exchange shall have, prior to the Closing Date, issued its approval of the transactions contemplated herein; and
- (n) the Kaboose Private Placement shall close immediately prior to the Amalgamation.

The foregoing conditions are for the mutual benefit of the Corporation and Kaboose and may be waived, in whole or in part, by the Corporation and Kaboose at any time.

The obligations of the Corporation to complete the Amalgamation are subject to the satisfaction of each of the following conditions at or prior to the Effective Date or such other time as is specified below:

- (a) Kaboose shall have performed or complied with, in all material respects, each of its obligations, covenants and agreements under the Qualifying Transaction Agreement to be performed and complied with by it on or before the Effective Time;
- (b) each of the representations and warranties of Kaboose under the Qualifying Transaction Agreement shall be true and correct in all respects on the date of the Qualifying Transaction Agreement and as of the Effective Date as if made on and as of such date except: (i) for such representations and warranties made as of a specified date, which shall be true and correct as of such specified date, (ii) as affected by transactions contemplated or permitted by the Qualifying Transaction Agreement; or (iii) where the failure of such representations and warranties in the aggregate to be true and correct in all respects would not be reasonably expected to have a material adverse effect on Kaboose;
- (c) since the date of the Qualifying Transaction Agreement, there shall have been no material adverse effect with respect to Kaboose or any event, occurrence or development, including the commencement of any action, suit or other legal proceeding which would be reasonably expected to have a material adverse effect on Kaboose;
- (d) the Corporation shall have received a certificate of Kaboose addressed to the Corporation and dated the Effective Date, signed on behalf of Kaboose by two senior executive officers of Kaboose, confirming that certain conditions have been satisfied;
- (e) since the date of the Qualifying Transaction Agreement, no action, suit or proceeding shall have been taken before or by any governmental entity or by any private that would, if successful, have a material adverse effect on Kaboose, in the sole discretion of the Corporation, acting reasonably;
- (f) the board of directors of Kaboose shall have adopted all necessary resolutions, and all other necessary corporate action shall have been taken by Kaboose to permit the consummation of the Amalgamation and the transactions contemplated in the Qualifying Transaction Agreement;
- (g) all consents and approvals under any agreements to which Kaboose may be a party or bound which are required or necessary or desirable for the completion of the transactions contemplated under the Qualifying Transaction Agreement shall have been obtained or received;
- (h) any director, officer, insider or other non-arm's length party that is indebted to Kaboose shall have repaid such indebtedness; and
- (i) Kaboose shall not, from the date of the Qualifying Transaction Agreement and up to completion of the Amalgamation, without prior written consent of the Corporation, have effected or taken any steps to effect any transaction or action out of the ordinary course of business.

The foregoing conditions are for the benefit of the Corporation and may be waived, in whole or in part, by the Corporation at any time.

The obligation of Kaboose to complete the Amalgamation are subject to the satisfaction of each of the following conditions at or prior to the Effective Date or such other time as is specified below:

- (a) the Corporation shall have performed or complied with, in all material respects, its obligations, covenants and agreements under the Qualifying Transaction Agreement to be performed and complied with by it on or before the Effective Time;
- (b) each of the representations and warranties of the Corporation under the Qualifying Transaction Agreement shall be true and correct in all respects on the date of the Qualifying Transaction Agreement and as of the Effective Date as if made on and as of such date except: (i) for such representations and warranties made as of a specified date, which shall be true and correct as of such specified date, (ii) as affected by transactions contemplated or permitted by the Qualifying Transaction Agreement; or (iii) where the failure of such representations and warranties in the aggregate to be true and correct in all respects would not be reasonably expected to have a material adverse effect on the Corporation;
- (c) since the date of the Qualifying Transaction Agreement, there shall have been no material adverse effect with respect to the Corporation or any event, occurrence or development which would be reasonably expected to have a material adverse effect on the Corporation;
- (d) Kaboose shall have received a certificate of the Corporation addressed to Kaboose and dated the Effective Date, signed on behalf of the Corporation by two senior executive officers of the Corporation, confirming that certain conditions have been satisfied;
- (e) since the date of the Qualifying Transaction Agreement, no action, suit or proceeding shall have been taken before or by any governmental entity or by any private that would, if successful, have a material adverse effect on the Corporation, in the discretion of Kaboose, acting reasonably;
- (f) the board of directors and the shareholders of the Corporation shall have adopted all necessary resolutions, and all other necessary corporate action shall have been taken by the Corporation to permit the consummation of the Amalgamation;
- (g) the Corporation shall not, from the date of the Qualifying Transaction Agreement and up to completion of the Amalgamation, without prior written consent of Kaboose, have effected or taken any steps to effect any transaction or action out of the ordinary course of business; and
- (h) all consents and approvals under any agreements to which the Corporation may be a party or bound which are required or necessary or desirable for the completion of the transactions contemplated under the Qualifying Transaction Agreement shall have been obtained or received.

The foregoing conditions are for the benefit of Kaboose and may be waived, in whole or in part, by Kaboose at any time.

## **SHAREHOLDER APPROVAL**

### **Corporate Law Shareholder Approval**

The Continuance and the Amalgamation must be approved by the IS Shareholders in accordance with the ABCA. Pursuant to the ABCA, in order to be effective, a Special Resolution requires approval by not less than  $\frac{2}{3}$  of the votes cast by shareholders who vote in respect of the resolution. IS Optionholders are not entitled to vote with respect to the Amalgamation unless the IS Options are exercised into IS Shares.

Pursuant to Section 191 of the ABCA with respect to the Continuance and Section 190 of the CBCA with respect to the Amalgamation, holders of IS Shares are entitled to exercise rights of dissent in respect of the Continuance and Amalgamation and to be paid the fair value for their shares. Holders of IS Shares wishing to dissent with respect to the Continuance and/or Amalgamation must send written objection to the Corporation at or prior to the Meeting to the head office of the Corporation at Suite 300, 570 Granville Street, Vancouver, British Columbia, V6C 3P1, Attention: President. A vote against the Special Resolution regarding the Continuance and/or Amalgamation or a withholding of a vote does not constitute such a written objection. See "*Dissent Rights*".

## **REGULATORY APPROVALS AND FILINGS**

Neither the Corporation nor Kaboose are aware of material licenses or regulatory permits which might be adversely affected by the Amalgamation or of any approval or other action by any federal, provincial, state or foreign government or administrative or regulatory agency that would be required to be obtained prior to the completion of the Amalgamation, other than by the Exchange.

## **DISSENT RIGHTS**

**The following description of the rights of Dissenting Shareholders to dissent in respect of the Continuance and the Amalgamation is not a comprehensive statement of the procedures to be followed by a Dissenting Shareholder who seeks payment of the fair value of such holder's IS Shares and is qualified in its entirety by the reference to the full text of section 191 of the ABCA, in respect of the Continuance, and section 190 of the CBCA, in respect of the Amalgamation, which are attached to this Information Circular as Schedule 5. A registered IS Shareholder who intends to exercise the right of dissent and appraisal should carefully consider and comply with the provisions of that section. Failure to strictly comply with the provisions of that section and to adhere to the procedures established therein may result in the loss of all rights thereunder.**

A holder of IS Shares is entitled, in addition to any other right such holder may have, to dissent and to be paid by the Corporation the fair value of the IS Shares held by such holder in respect of which such holder dissents, determined as of the close of business on the last Business Day before the day on which the resolution from which such holder dissents was adopted. A holder of IS Shares may dissent only with respect to all of the IS Shares held by such holder or on behalf of any one beneficial owner and registered in the Dissenting Shareholder's name. **Only registered holders of IS Shares may dissent. Persons who are beneficial owners of IS Shares registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent should be aware that they may only do so through the registered owner of such IS Shares. A registered holder, such as a broker, who holds IS Shares as nominee for beneficial holders, some of whom wish to dissent, must exercise dissent rights on behalf of such beneficial owners with respect to the IS Shares held for such beneficial owners. In such case, the demand for dissent should set forth the number of IS Shares covered by it.**

**A Dissenting Shareholder must send to the Corporation a written objection to the Special Resolution, which written objection must be received at the head office of the Corporation before the Meeting, or by the Chairman of the Meeting at or before the Meeting. An IS Shareholder wishing to exercise the right to dissent with respect to such holder's IS Shares shall not vote the holder's IS Shares at the Meeting, either by the submission of a proxy or by personally voting in favour of the Special Resolution.**

### *Continuance*

An application may be made to the Court by the Corporation or by a Dissenting Shareholder to fix the fair value of the Dissenting Shareholder's IS Shares. If such an application to the Court is made by the Corporation or a Dissenting Shareholder, the Corporation must, unless the Court otherwise orders, send to each Dissenting Shareholder a written offer to pay the Dissenting Shareholder an amount considered by the Board of Directors to be the fair value of the IS Shares. The offer, unless the Court otherwise orders, will be sent to each Dissenting Shareholder at least ten days before the date on which the application is returnable, if the Corporation is the applicant, or within ten days after the Corporation is served with notice of the application, if a Shareholder is the applicant. The offer will be made on the same terms to each Dissenting Shareholder and will be accompanied by a statement showing how the fair value was determined. A Dissenting Shareholder may make an agreement with the Corporation for the purchase of such holder's IS Shares in the amount of the offer made by the Corporation (or otherwise) at any time before the Court pronounces an order fixing the fair value of the IS Shares.

A Dissenting Shareholder is not required to give security for costs in respect of an application and, except in special circumstances, will not be required to pay the costs of the application and appraisal. On the application, the Court will make an order fixing the fair value of the IS Shares of all Dissenting Shareholders who are parties to the application, giving judgment in that amount against the Corporation and in favour of each of those Dissenting Shareholders, and fixing the time within which the Corporation must pay that amount payable to the Dissenting Shareholders. The Court may in its discretion allow a reasonable rate of interest on the amount payable to each Dissenting Shareholder calculated from the date on which the IS Shareholder ceases to have any rights as an IS Shareholder, until the date of payment.

Upon the Continuance becoming effective, or upon the making of an agreement between the Corporation and the Dissenting Shareholder as to the payment to be made by the Corporation to the Dissenting Shareholder, or upon the pronouncement of a Court order, whichever first occurs, the IS Shareholder will cease to have any rights as an IS Shareholder other than the right to be paid the fair value of such holder's IS Shares, in the amount agreed to between the Corporation and the IS Shareholder or in the amount of the judgment, as the case may be. Until one of these events occurs, the IS Shareholder may withdraw its dissent, or the Corporation may rescind the Special Resolution, and in either event the dissent and appraisal proceedings in respect of that IS Shareholder will be discontinued.

### *Amalgamation*

Within ten days after the Special Resolution has been adopted, the Corporation must send to each IS Shareholder who filed an objection a notice that the resolution has been adopted. After receiving notice of the resolution, within twenty days the Dissenting Shareholder must send to the Corporation a written notice (the "Notice") including, but not limited to, a demand for payment of the fair value of such IS Shares. The Corporation must, not later than seven days after the later of the day on which the Amalgamation becomes effective or the day the Corporation received the Notice, send to each Dissenting Shareholder, who has sent a Notice to the Corporation, a written offer to pay the Dissenting Shareholder an amount considered by the Board of Directors to be the fair value of the IS Shares. The offer will be made on the same terms to each Dissenting Shareholder and will be accompanied by a statement showing how the fair value was determined. If the Dissenting Shareholder fails to accept the Corporation's offer, the Corporation may, within fifty days after the Amalgamation becomes effective, or within such further period as a Court may allow, apply to the Court to fix the fair value of the Dissenting Shareholder's IS Shares, failing which, the Dissenting Shareholder may apply for same.

A Dissenting Shareholder is not required to give security for costs in respect of an application. On the application, the Court will make an order fixing the fair value of the IS Shares of all Dissenting

Shareholders who are parties to the application, giving judgment in that amount against the Corporation and in favour of each of those Dissenting Shareholders. The Court may in its discretion allow a reasonable rate of interest on the amount payable to each Dissenting Shareholder calculated from the date the Amalgamation approved by the resolution was effective until the date of payment.

Once a Dissenting Shareholder sends a Notice to the Corporation, the Dissenting Shareholder will cease to have any rights as an IS Shareholder, other than the right to be paid the fair value of the IS Shares, as determined by the Board of Directors or Court Order, unless the Corporation neglects to make a written offer to the Dissenting Shareholder for the fair value of their IS Shares within the prescribed time, or the Dissenting Shareholder withdraws their dissent before the Corporation makes such an offer, or the Board of Directors revoke the resolution, and in which case, the happening of any one of these events will result in the Dissenting Shareholder's rights being reinstated as of the date the Notice was sent.

#### *Payments to Dissenting Shareholders*

The Corporation shall not make a payment to a Dissenting Shareholder under section 191 of the ABCA or section 190 of the CBCA, as applicable, if there are reasonable grounds for believing that the Corporation, is or would after the payment be unable to pay its liabilities as they become due, or that the realizable value of the assets of the Corporation would thereby be less than the aggregate of its liabilities, or if on the Effective Date the Dissenting Shareholder is not the owner of the subject IS Shares. In such event, the Corporation shall notify each Dissenting Shareholder that is unable lawfully to pay Dissenting Shareholders for their IS Shares, in which case the Dissenting Shareholder may, by written notice to the Corporation with 30 days after receipt of such notice, withdraw such holder's written objection, in which case the Corporation shall be deemed to consent to the withdrawal and such IS Shareholder shall be reinstated within full rights as an IS Shareholder, failing which such Dissenting Shareholder retains a status as a claimant against the Corporation to be paid as soon as the Corporation is lawfully entitled to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the Corporation but prior to its shareholders.

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

*This Summary is of a general nature only and is not intended to be, nor shall it be construed to be, legal or tax advice to any particular IS Shareholder or holder of IS Options. Accordingly, holders of IS Shares and IS Options are urged to consult their own tax advisors for advice regarding the income tax consequences of the Amalgamation and the exercise of dissent rights having regard to their particular circumstances.*

#### **Material Canadian Federal Income Tax Considerations of the Amalgamation**

In the opinion of Borden Ladner Gervais LLP, counsel to the Corporation, the following summary describes, as of the date of this Circular, the material Canadian federal income tax considerations under the ITA of the Amalgamation applicable to IS Shareholders and holders of IS Options who at all relevant times and for purposes of the ITA deal at arm's length with and are not affiliated with the Corporation or Kaboose, hold their IS Shares and will hold their Amalco Shares as capital property.

IS Shares and Amalco Shares will generally be considered to be capital property to the holder provided that the holder does not hold such securities in the course of carrying on a business and has not acquired such securities in a transaction or transactions considered to be an adventure in the nature of trade. This summary does not take into account the "mark-to-market rules" in the ITA that apply to "financial institutions". Holders that are "financial institutions" for the purposes of these rules should consult their own tax advisors.

This summary is based on the current provisions of the ITA, the current regulations thereunder (the “**Regulations**”) and counsel’s understanding of the current published administrative and assessing practices of the CRA. This summary also takes into account all specific proposals to amend the ITA and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date of this Circular (collectively, the “**Proposed Amendments**”). No assurance can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes to the law, whether by judicial, governmental or legislative action or changes in the administrative practices and policies of the CRA, nor does it take into account provincial, territorial or foreign tax legislation or considerations, which may differ from the Canadian federal income tax considerations discussed herein.

### **Holders Resident in Canada**

The following portion of this summary is applicable to holders of IS Shares and those persons who become holders of Amalco Shares as a consequence of the Amalgamation, who, for the purposes of the ITA and any applicable income tax convention, at all relevant times, are resident in Canada or are deemed to be resident in Canada. Certain Canadian resident holders whose IS Shares might not otherwise qualify as capital property may make an irrevocable election in accordance with subsection 39(4) of the ITA to deem the shares and every “Canadian security” (as defined in the ITA) owned by such holders to be capital property in the taxation year of the election and in all subsequent taxation years. A Canadian security is defined to include shares of a corporation resident in Canada but does not include warrants or options. Any holder of IS Shares contemplating making such election should first consult their tax advisor as its completion will affect the income tax treatment of their disposition of other Canadian securities.

### **Holders of IS Shares on Amalgamation**

The Amalgamation will not result in a taxable event for a holder of IS Shares other than a Dissenting holder of IS Shares. Holders of IS Shares (other than holders of IS Shares who dissent from the Amalgamation) will realize neither a capital gain nor a capital loss on the Amalgamation as a result of the IS Shares being disposed of in exchange for Amalco Shares.

The aggregate cost of the Amalco Shares received by a IS Shareholder on the Amalgamation will be equal to the aggregate adjusted cost base to the IS Shareholder of the IS Shares disposed of in exchange for such Amalco Shares by virtue of the Amalgamation. The holder’s cost of such Amalco Shares must be averaged with the adjusted cost base of any other Amalco Shares held by the holder to determine the holder’s adjusted cost base of such Amalco Shares.

### **Holders of IS Options on Amalgamation**

In the event that a holder of an IS Option has obtained such option in respect of, in the course of or by virtue of that holder’s employment as a director, officer or employee of the Corporation, on the exchange of the IS Option for an Amalco Option, the holder will realize neither a capital gain nor a capital loss on the Amalgamation provided the amount, if any, by which (i) the total value of the Amalco Shares immediately after the exchange exceeds (ii) the total exercise price under the new option, does not exceed the amount, if any, by which (iii) the total value of the IS Shares immediately before the exchange exceeds (iv) the total exercise price under the IS Option. More specifically, the holder will be deemed not to have disposed of their IS Options and not to have acquired the Amalco Options, and the Amalco Options will be deemed to be the same options as, and a continuation of the IS Options.

## **IS Shareholders Not Resident in Canada**

The following portion of the summary is generally applicable to holders of IS Shares who, for purposes of the ITA and any applicable income tax convention, have not been and will not be resident or deemed to be resident in Canada at any time while they have held the IS Shares and who do not use or hold and are not deemed to use or hold the IS Shares in carrying on a business in Canada (a “**Non-Resident Holder**”). Special rules, which are not discussed in this summary, may apply to a non-resident that is an insurer carrying on business in Canada and elsewhere.

### *Taxation of Capital Gains and Losses*

A Non-Resident Holder of IS Shares who participates in the Amalgamation will generally be subject to the same tax consequences as a Canadian resident holder on the Amalgamation, as discussed above. Accordingly, a Non-Resident Holder who disposes of IS Shares in exchange for Amalco Shares on the Amalgamation will generally realize neither a capital gain nor a capital loss, as discussed above under the subheading, “*Holders of IS Shares on Amalgamation*”.

## **Dissenting Shareholders**

**Any Shareholder who is considering dissenting in respect of the Amalgamation is urged to consult its own tax advisors with respect to the income tax consequences to them of such action.**

## **RISK FACTORS**

If the Amalgamation is successfully completed, Amalco will carry on the business of Kaboose. The following risk factors relate to the business to be carried on by the Resulting Issuer:

### **Competition**

The industry in which Kaboose operates is highly competitive. Kaboose competes with other more established companies which have greater financial, marketing and other resources and certain of which are large international companies which offer a wider array of products to their clients than Kaboose.

### **Reliance on Management of the Resulting Issuer**

Shareholders of the Resulting Issuer will have to rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Kaboose. The success of Kaboose is dependent upon its personnel and key consultants. The unexpected loss or departure of any of Kaboose’s key officers, employees or consultants could be detrimental to the future operations of Kaboose. The success of Kaboose’s business will depend, in part, upon Kaboose’s ability to attract and retain qualified personnel as they are needed. There can be no assurance that Kaboose will be able to engage the services of such personnel or retain its current personnel.

### **Conflicts of Interest**

Certain directors and officers of Kaboose are engaged in and will continue to engage in other activities and, as a result of these and other activities, the directors and officers of Kaboose may become subject to conflicts of interest. The CBCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided



under the CBCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the CBCA.

### **Dilution**

Kaboose may require additional financing which may not be available or, if available, may not be available on favourable terms. Where additional financing is raised by the issuance of shares or securities convertible into shares from treasury, control of the Resulting Issuer may change and shareholders may suffer further dilution to their investment. The issuance of debt may result, among other things, in the encumbrance of certain of the Resulting Issuer's assets, impede the Resulting Issuer's ability to obtain additional bank financing and decrease the Resulting Issuer's liquidity.

### **Proprietary Protection**

Kaboose relies on a combination of trade marks, copyright, trade secret, confidentiality procedures and contractual provisions to protect its proprietary rights. Kaboose may also apply for certain other copyrights and trade marks to protect its technology and other intellectual property. Despite Kaboose's efforts to protect proprietary rights, unauthorized parties may attempt to copy aspects of Kaboose's technology and other intellectual property or to obtain and use information that Kaboose regards as proprietary. Policing unauthorized use of Kaboose's technology may be difficult, time-consuming and costly. There is no assurance that Kaboose will be able to protect the software and technology it considers proprietary. In addition, there is no assurance that Kaboose's means of protecting proprietary rights will be adequate or that Kaboose's competitors will not independently develop similar technology, the effect of either of which may be materially adverse to Kaboose's business, results of operations and financial condition.

Kaboose is not aware that its technology infringes the proprietary rights of any third parties. There can be no assurance, however, that third parties will not claim such infringement by Kaboose or its licensees with respect to current or future technology initiatives. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause implementation delays or require Kaboose to enter into royalty or licensing agreements which, if required, may not be available on terms acceptable to Kaboose. Any of the foregoing could have a materially adverse effect on Kaboose's business, results of operations or financial condition.

### **History of Losses**

Kaboose has a history of losses that could continue. Kaboose may not be able to raise additional financing or establish additional borrowing sources to meet its anticipated and unanticipated working capital requirements. If adequate funds are not available to satisfy either short- or long- term capital requirements, Kaboose might be required to limit its operations significantly or to delay or abandon others.

### **Future Success Dependant on Ability to Increase and sustain Advertising Revenue**

Kaboose's success depends, in large part, on its ability to increase and sustain advertising revenue. Kaboose's ability to maintain current levels of advertising revenue and to increase and sustain new levels of advertising revenue depend on a number of factors including: generating traffic; creating content; increase of user base; advertisers choosing to allocate more funds to online advertising; advertiser satisfaction; and other.

### **Users Continuing to Accept Content**

Kaboose's success depends upon its ability to deliver original and compelling content and services that attract and retain users. It also depends on Kaboose's ability to maintain a community of active users. Kaboose cannot assure that it will continue to develop new content or services relating to the industry in a timely and cost-effective manner or that the content developed will continue to be attractive to users.

### **Technical Problems or Service Adjustments**

Technical problems or intentional service adjustment with either Kaboose's internal or outsourced computer and communications systems could interrupt or disrupt service, resulting in reduced customer satisfaction, the possible loss of users and advertising customers and a decline in revenue. Kaboose's operations depend on its ability to maintain its computer systems and equipment in effective working order. Kaboose's web sites must accommodate a high volume of user traffic and deliver frequently updated and accurate information. Any sustained or repeated system failure or interruption would reduce the attractiveness of Kaboose's web site to users and advertisers and could cause Kaboose to lose customers or advertisers.

**PART III**  
**MATTERS TO BE ACTED UPON AT THE MEETING**

**CONTINUANCE OF IRON SPRINGS**

The IS Shareholders will be asked to pass a Special Resolution, the text of which is set forth below, in respect of the approval of the continuance of the Corporation under the provision of the CBCA (the “Continuance”). In order to be effective, a Special Resolution requires the approval by not less than  $\frac{2}{3}$  of the votes cast by shareholders who vote in respect of the resolution. **In the absence of contrary directions, the Management Designees intend to vote proxies in the accompanying form in favour of the Continuance.** The text of the Special Resolution to approve the Continuance will be presented as follows, with or without modification:

**“BE IT RESOLVED, as a special resolution of the Corporation that:**

- 1. The continuance of Iron Springs Capital Corp. from a corporation existing under the *Business Corporations Act* (Alberta) to a corporation existing under the *Canada Business Corporations Act* is hereby authorized and approved;**
- 2. Provided that (i) this resolution has been confirmed in accordance with the provisions of the *Business Corporations Act* (Alberta); and (ii) the amalgamation agreement between the Corporation and Kaboose Inc. (the “Amalgamation Agreement”) has not been terminated, any director or officer of the Corporation is hereby authorized to sign the Articles of Continuance and all other documents required or necessary for the delivery of a certificate attesting to the Continuance; and**
- 3. Notwithstanding the approval by shareholders of this special resolution and without further notice to or approval of shareholders of the Corporation, the directors of the Corporation may decide to revoke this resolution and not to proceed with the Continuance becoming effective pursuant to the provisions of the *Canada Business Corporations Act*.**

**APPROVAL OF THE AMALGAMATION**

The IS Shareholders will be asked to pass a Special Resolution, the text of which is set forth below, in respect of approval of the Amalgamation. In order to be effective, a Special Resolution requires the approval by not less than  $\frac{2}{3}$  of the votes cast by shareholders who vote in respect of the resolution. **In the absence of contrary directions, the Management Designees intend to vote proxies in the accompanying form in favour of the Amalgamation.** The text of the Special Resolution to approve the Amalgamation will be presented as follows, with or without modification:

**“BE IT RESOLVED, as a special resolution of the Corporation that:**

- 1. the amalgamation of Iron Springs Capital Corp. (the “Corporation”) and Kaboose Inc. (“Kaboose”) (the “Amalgamation”) as provided for in and subject to the terms and conditions set forth in the Amalgamation Agreement to be entered into between the Corporation and Kaboose, is hereby approved and authorized, with such restrictions or conditions as may be imposed by TSX Venture Exchange (the “Exchange”) and with discretion to modify the terms of the transaction provided that such terms are not material at any time prior to the completion thereof, subject to the approval of the Exchange, all as more particularly described in the management proxy and information circular of the Corporation dated October 17, 2005 (the “Circular”);**

2. **the Amalgamation Agreement, substantially in the form attached to the Circular as Schedule 1, be and is hereby approved and ratified;**
3. **notwithstanding that this resolution has been passed (and the Amalgamation Agreement and the Amalgamation adopted) by the IS Shareholders, the directors of the Corporation are hereby authorized and empowered without further notice to or approval of the IS Shareholders (i) to amend the Amalgamation Agreement to the extent permitted by the Amalgamation Agreement, and (ii) subject to the terms and conditions of the Amalgamation Agreement, not to proceed with the Amalgamation; and**
4. **any director or officer of the Corporation be, and such director or officer of the Corporation hereby is, authorized, instructed and empowered, acting for, in the name of and on behalf of the Corporation, to do or to cause to be done all such other acts and things in the opinion of such director or officer of the Corporation as may be necessary or desirable in order to fulfill the intent of this resolution and the matters authorized hereby.”**

### **NAME CHANGE**

The IS Shareholders will be asked to pass a Special Resolution, the full text of which is set forth below, to authorize the board of directors of the Corporation to amend the Corporation’s articles to effect the change of name of the Corporation to “Kaboose Inc.” (the “**Name Change**”), or such other name as may be accepted by the relevant regulatory authorities and approved by the board of directors.

In order to be effective, a Special Resolution requires the approval by not less than  $\frac{2}{3}$  of the votes cast by shareholders who vote in respect of the resolution. **In the absence of contrary directions, the Management Designees intend to vote proxies in the accompanying form in favour of the Name Change.** The text of the Special Resolution to approve the Name Change will be presented as follows, with or without modification:

**“BE IT RESOLVED as a special resolution of the Corporation that:**

1. **the name of the Corporation be changed from “Iron Springs Capital Corp.” to “Kaboose Inc.” (the “Name Change”), or such other name as may be accepted by the relevant regulatory authorities and approved by the board of directors of the Corporation, and that the Articles of the Corporation be amended to reflect such change;**
2. **the directors of the Corporation may, in their sole discretion and without further notice to or approval of the shareholders of the Corporation, act upon the foregoing resolution to effect the Name Change or, if deemed appropriate, determine not to proceed with the change of name or to otherwise give effect to this special resolution, at any time prior to the Name Change becoming effective;**
3. **any one director or officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute or cause to be executed, whether under corporate seal or otherwise, and to deliver or file or cause to be delivered or filed, as the case may be, all applications, declarations, documents, instruments and all such other acts and things as they may determine necessary or advisable to give effect to the foregoing resolutions including, without limitation, filing of articles of amendment, the execution of any such document or the doing of such act or thing being conclusive evidence of such determination; and**

4. upon articles of amendment having become effective in accordance with the *Canada Business Corporations Act*, the articles of the Corporation are amended accordingly.

#### **REAPPOINTMENT OF AUDITOR**

The board of directors proposes to reappoint Davidson & Company LLP, Chartered Accountants (“**Davidson**”) as auditors of the Corporation. Davidson was appointed as the auditor of the Corporation on March 15, 2005.

**In the absence of contrary directions, the Management Designees intend to vote proxies in the accompanying form in favour of the ordinary resolution reappointing Davidson as the auditors of the Corporation for the ensuing year and to hold office until the close of the next annual meeting of shareholders or until Davidson is removed from office or resigns as provided by the by-laws of the Corporation or by law and authorizing the board of directors to fix the remuneration of the auditors.**

#### **FIX NUMBER OF DIRECTORS TO BE ELECTED**

Shareholders of the Corporation will be asked to consider and, if thought appropriate, to approve and adopt an Ordinary Resolution fixing the number of directors to be elected. In order to be effective, an Ordinary Resolution requires the approval of a majority of the votes cast by shareholders who vote in respect of the resolution.

At the Meeting, it will be proposed that five (5) directors be elected to hold office until the next annual meeting or until their successors are elected or appointed. **Unless otherwise directed, it is the intention of the Management Designees, if named as proxy, to vote in favour of the Ordinary Resolution fixing the number of directors to be elected at five (5).**

#### **ELECTION OF BOARD OF DIRECTORS**

The following table sets forth the name of each of the persons proposed to be nominated for election as a director, all positions and offices in the Corporation presently held by him, his municipality of residence, his principal occupation at the present and during the preceding five years, the period during which he has served as a director, and the number and percentage of IS Shares that the nominee has advised are beneficially owned by the nominee, directly or indirectly, or over which control or direction is exercised, as of the date hereof and the number of Amalco Shares expected to be held.

**Unless otherwise directed, it is the intention of the Management Designees, if named as proxy, to vote for the election of the persons named in the following table to the board of directors.** Management does not contemplate that any of such nominees will be unable to serve as directors; however, if for any reason any of the proposed nominees do not stand for election or are unable to serve as such, proxies held by Management Designees will be voted for another nominee in their discretion unless the shareholder has specified in his form of proxy that his IS Shares are to be withheld from voting in the election of directors. Each director elected will hold office until the next annual meeting of shareholders or until his successor is duly elected, unless his office is earlier vacated in accordance with the provisions of the CBCA.

Name, Expected Positions, Date Appointed Director and Municipality of Residence	Principal Occupations for the Previous Five Years	Number and Percentage of IS Shares Held or Controlled as at the Date hereof <sup>(1)(2)</sup>	Number and Percentage of Amalco Shares Held or Controlled Upon Completion of the Amalgamation <sup>(3)</sup>
<b>Jason DeZwirek</b> Proposed Chief Executive Officer and Director Toronto, Ontario	In 1999, Jason DeZwirek founded Kaboose of which he is currently the Chairman, Chief Executive Officer and a director. He is also currently a director of CECO Environmental Corp. (NASDAQ:CECE), an air pollution control company and API Electronics Group (OTC:AEGCF).	Nil	19,607,838 <sup>(4)</sup> (33.4%)
<b>Jonathan Graff</b> Proposed President and Director Toronto, Ontario	Jonathan Graff joined Kaboose as President in 2003. From 1998 to 2001, he was Director of Business Development with Homestore.com (NASDAQ:HOMS). Jonathan Graff also managed Homestore's Canadian national sales force from 2000 to 2001.	Nil	335,832 (<1%)
<b>A. Murray Sinclair</b> <sup>(5)</sup> Director (March 15, 2005) Vancouver, British Columbia	Since June 30, 2003, Mr. Sinclair has been Managing Director of Quest Capital Corp. (formerly Quest Investment Corp.). Quest Capital Corp. trades on the Toronto Stock Exchange (the "TSX") under the symbol QC. Quest Capital Corp. is a merchant bank that provides financial services to small and mid-cap companies operating primarily in North America. From July 2002 to June 2003, Mr. Sinclair was President and Director of Quest Investment Corp., a public company whose shares traded on the TSX.	40,000 (1.7%)	40,000 (<1%)
<b>K. Peter Miller</b> <sup>(5)</sup> Director (April 11, 2005) West Vancouver, British Columbia	Mr. Miller is currently the Chief Financial Officer of Quest Management Corp., a management company that is wholly owned by Quest Capital Corp. From 1988 to 1997, he was the Treasurer of Quest Oil and Gas Inc. (formerly Quest Capital Corporation).	40,000 (1.7%)	40,000 (<1%)
<b>Michael Winton</b> Proposed Director Toronto, Ontario	Michael Winton is currently the Vice President of The Equity Group and is President of Global Vending Corp., both private companies located in Dallas, Texas. Prior, Mr. Winton practiced as a lawyer in Toronto, Ontario.	Nil	88,868 (<1%)

**Notes:**

- (1) IS Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, as at the Date hereof, based upon information furnished to the Corporation by the above individuals. The information above does not include IS Options convertible into IS Shares.
- (2) Assumes 2,320,000 IS Shares issued and outstanding.
- (3) Assumes the completion of the Amalgamation, no exercise of any Options or Warrants and 58,643,413 Amalco Shares issued and outstanding.
- (4) Of the 19,607,838 Amalco Shares noted as held or controlled by Jason DeZwirek, 5,806,105 will be held by him personally and 13,801,733 will be held by Green Diamond Oil Corp., a corporation of which Jason DeZwirek is an officer and director.
- (5) Quest Capital Corp. owns 1,000,000 IS Shares. Quest Capital Corp. is a publicly traded corporation which trades on the TSX. Mr. Sinclair is a director and officer of Quest Capital Corp. and Mr. Miller is Chief Financial Officer of a subsidiary of Quest Capital Corp.

Pursuant to the provisions of the ABCA, the Corporation is required to have an Audit Committee. The general function of the Audit Committee is to review the overall audit plan and the Corporation's system

of internal controls, to review the results of the external audit, and to resolve any potential dispute with the Corporation's auditor. It is anticipated that upon completion of the Amalgamation, the Audit Committee will consist of Jason DeZwirek, Michael Winton and K. Peter Miller. The Audit Committee of the Corporation currently consists of A. Murray Sinclair, K. Peter Miller and Stewart Robertson.

### **APPROVAL OF STOCK OPTION PLAN**

The Corporation requests that the IS Shareholders ratify the stock option plan (the "Plan") which will replace the current Stock Option Plan of the Corporation, in the form previously adopted by the board of directors of the Corporation and which is attached hereto as Schedule 6. The Plan is expected to benefit the Amalco Shareholders by enabling the Resulting Issuer to attract and retain personnel of high calibre by offering to them an opportunity to share in an increase in the value of the Amalco Shares resulting from their efforts. The purpose of the Plan is to provide an incentive to employees, officers, directors and consultants of the Resulting Issuer responsible for the continued success of the Corporation and the Resulting Issuer. The following is a summary of the Plan.

The maximum number of shares reserved for issuance under the Plan will not exceed 20% of the issued and outstanding common shares of the Resulting Issuer from time to time. The number of common shares of the Resulting Issuer reserved for issuance to any one person cannot exceed 5% of the number of issued and outstanding common shares of the Resulting Issuer.

The Plan, which shall be administered by the board of directors of the Resulting Issuer, provides that options may be granted to employees, officers, directors or consultants of the Resulting Issuer or its subsidiaries, based on the eligibility criteria set out in the Plan. The options issued pursuant to the Plan are exercisable at a price, which shall be determined by the board of directors subject to the policies and approval of the Exchange, on the date of the grant of the option.

Options under the Plan must be granted for a term not to exceed the maximum term permitted by the Exchange, subject to such earlier termination, as provided in the Plan, in the event of death of an optionee or in the event an optionee ceases to be a director, officer, employee or consultant. Subject to certain exceptions in the Plan relating to death of the optionee, the options will be non-assignable and non-transferable. Options may vest in accordance with a vesting schedule established by the board of directors, subject to Exchange policies and approval.

The Corporation currently has 150,000 IS Options issued and outstanding.

**In the absence of contrary directions, the Management Designees of the Corporation intend to vote proxies in the accompanying form in favour of this resolution.** The complete text of the ordinary resolution which management intends to place before the Meeting for approval, confirmation and adoption, with or without modification, is as follows:

**"BE IT RESOLVED as an ordinary resolution of the Corporation that:**

- 1. the stock option plan (the "Plan") of Iron Springs Capital Corp. (the "Corporation") dated October 17, 2005 as attached to the management information circular dated October 17, 2005 is hereby ratified and approved;**
- 2. the Corporation is hereby authorized to grant stock options pursuant and subject to the terms and conditions of the Plan entitling option holders to purchase up to that number of common shares of the Corporation equal to 20% of the issued and outstanding common shares of the Corporation from time to time;**

3. **the board of directors of the Corporation is hereby authorized to make such amendments to the Plan from time to time, as may be, in its discretion, considered appropriate, provided always that such amendments be subject to the approval of all applicable regulatory authorities and the approval of the shareholders of the Corporation where required; and**
4. **any one director or officer of the Corporation is hereby authorized to take any and all steps and to execute any other documents as he may deem necessary to give effect to this resolution and the transactions contemplated by the Plan.”**

#### **OTHER BUSINESS**

Management is not aware of any other matters to come before the Meeting other than those set out in the Notice of Meeting. If other matters come before the Meeting, it is the intention of the Management Designees to vote the same in accordance with their best judgment in such matters.



**PART IV**  
**INFORMATION REGARDING IRON SPRINGS CAPITAL CORP.**

**NAME AND INCORPORATION**

The Corporation was incorporated on March 15, 2005 by a Certificate of Incorporation issued pursuant to the provisions of the ABCA under the name “Iron Springs Capital Corp.” By a Certificate of Amendment issued on May 24, 2005, the Corporation amended its Articles of Incorporation to remove the restrictions against share transfers.

The head office of the Corporation is located at Suite 300, 570 Granville Street, Vancouver, British Columbia, V6C 3P1. The registered and records office of the Corporation is located at Suite 1000, 400 Third Avenue S. W., Calgary, Alberta, T2P 4H2.

**GENERAL DEVELOPMENT OF THE BUSINESS**

**History**

The Corporation is a CPC as it is defined in Policy 2.4 of the Exchange. On July 7, 2005, the Corporation completed its initial public offering of 1,200,000 IS Shares at a price of \$0.25 per IS Share for gross proceeds of \$300,000 by way of a final prospectus dated June 17, 2005 filed in the provinces of Alberta, British Columbia and Ontario. The Corporation is currently a reporting issuer in the provinces of Alberta, British Columbia and Ontario. The Corporation’s common shares began trading on the Exchange effective July 13, 2005 under the symbol “ISP.P”. The Corporation has conducted no business operations except for the identification and evaluation of potential acquisitions to qualify as a Qualifying Transaction. The Corporation has no material assets other than cash of approximately \$373,000 and has liabilities of approximately \$20,000 as at July 31, 2005.

On August 11, 2005, the Corporation and Kaboose entered into the Letter of Intent whereby the Corporation and Kaboose agreed to enter into a business combination. Under the terms of the Qualifying Transaction Agreement, which supersedes the Letter of Intent, the Corporation and Kaboose shall amalgamate as one corporation under the provisions of the CBCA and continue as Amalco. It is intended that the Amalgamation will constitute the Corporation’s Qualifying Transaction pursuant to Policy 2.4 of the Exchange.

**SELECTED FINANCIAL INFORMATION**

The following table sets forth certain financial data for the Corporation for the periods indicated. Such financial information should be read in conjunction with the financial statements of the Corporation attached to this Circular as Schedule 2.

	<b>July 31, 2005</b> <b>(unaudited)</b>	<b>April 30, 2005</b> <b>(audited)</b>
Current Assets	\$376,450	\$140,000
Current Liabilities	\$19,627	\$2,500
Total Expenses	\$32,650	\$2,500
Deferred Expenditures	nil	nil

## MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis of financial position and results of operation is prepared as at September 16, 2005 and should be read in conjunction with the unaudited interim financial statements and the related Notes for the for the three months ended July 31, 2005 and the audited financial statements for the period from incorporation on March 15, 2005 to April 30, 2005 attached to this Circular as Schedule 2. Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar figures included therein and in the following management discussion and analysis (“MD&A”) are quoted in Canadian dollars. Additional information relevant to the Corporation’s activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### Overview

The Corporation is a CPC under Policy 2.4 and was listed on the Exchange on July 13, 2005 under the symbol “ISP.P”. The Corporation has not commenced commercial operations and has no assets other than cash and deferred expenses.

### Selected Annual Financial Data

The following is a summary of selected financial data for the fiscal period ending April 30, 2005. As the Company was incorporated on March 15, 2005, there is no financial data for 2004 or 2003.

#### Selected Annual Financial Information

	From period of incorporation, March 15, 2005 to April 30, 2005
Sales	--
Operating Expenses	\$2,500
Net Loss	(\$2,500)
Loss per Share - Basic and Diluted	--
Total Assets	\$140,000
Long Term Liabilities	--
Dividends	--

### Quarterly Information

*Operations:*

Quarter ended	Interest income <sup>(2)</sup>	Operating costs	Net loss	Basic & diluted loss per share
April 30, 2005 <sup>(1)</sup>	\$-	\$2,500	\$(2,500)	\$-
July 31, 2005	\$1,041	\$32,650	\$(31,609)	\$(0.10)

**Notes:**

- (1) Covers period from incorporation on March 15, 2005 to April 30, 2005.
- (2) The Corporation has no sales revenues.

### Results of Operations

The Corporation is a CPC and has no business operations. The Corporation receives interest income from funds on deposit but has no sales revenue. Until such time as the Corporation completes a Qualifying Transaction as

required by the Exchange, corporate expenditures will be restricted to costs of raising equity financing, administrative costs to maintain the Corporation in good standing and costs to identify and evaluate potential business opportunities.

### **Period from incorporation March 15, 2005 to April 30, 2005**

The Corporation was incorporated on March 15, 2005 and incurred legal and accounting fees of \$2,500 in connection with incorporation and the preparation of its April 30, 2005 financial statements.

### **Quarter ended July 31, 2005**

During the quarter, the Corporation completed its initial public offering and the IS Shares began trading on July 13, 2005.

During the quarter, the Corporation incurred operating costs of \$32,650. The single largest expense during the quarter was stock based compensation for options granted to directors, valued at \$25,850 using the Black-Scholes valuation model. As a consequence of its public listing, the Corporation incurred expenses associated with its transfer agent, listing and filing fees (\$4,697).

### **Financial Condition / Liquidity / Capital Resources**

During the period from incorporation on March 15, 2005 to April 30, 2005, the Corporation raised seed capital of \$140,000 by issuing 1,120,000 IS Shares.

On July 7, 2005 the Corporation completed its initial public offering by issuing 1,200,000 IS Shares at a price of \$0.25 per share for gross proceeds of \$300,000. Costs of \$90,788, associated with completion of this initial public offering, were charged to share capital. These costs include \$15,870 of stock based compensation for the IS Agent's Options.

As at July 31, 2005, the Corporation had cash of \$372,913 and working capital of \$356,823.

As of the date of this MD&A, the Corporation has no outstanding commitments. The Corporation has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants. Management believes the Corporation has sufficient working capital at this time to meet its ongoing financial obligations.

### **Outstanding Share Data**

As at September 16, 2005, there were 2,320,000 IS Shares issued and outstanding. In addition, there were 150,000 IS Option's to purchase IS Shares granted to the directors and officers of the Corporation which expire on July 7, 2010 and 100,000 IS Agent's Options to purchase IS Shares and which expire on July 13, 2007.

### **Proposed Qualifying Transaction**

On August 11, 2005, the Corporation signed a letter of intent with Kaboose, pursuant to which the Corporation and Kaboose agreed, in principle, to enter into a business combination transaction whereby the Corporation would acquire all of the issued and outstanding Kaboose Securities, subject to shareholder and regulatory approval. Kaboose is an online media and commerce company targeting kids and families throughout the world and is based in Toronto, Ontario. This proposed acquisition is intended to constitute a Qualifying Transaction as defined under Policy 2.4.

## **Risks and Uncertainties**

The Corporation has identified a proposed Qualifying Transaction in which to participate. Completion of the transaction with Kaboose is subject to a number of factors including regulatory and shareholder approval. There is no assurance that this transaction will be completed or that the Corporation will be able to identify a suitable Qualifying Transaction if the transaction with Kaboose is not approved.

## **Cautionary Statement**

This MD&A may contain “forward looking statements” that reflect the Corporation’s current expectations and projections about its future results. When used in this MD&A, words such as “estimate”, “intend”, “expect”, “anticipate” and similar expressions are intended to identify forward-looking statements, which, by their very nature, are not guarantees of the Corporation’s future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Corporation’s actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. These risks, uncertainties and factors may include, but are not limited to: unavailability of financing and failure to successfully complete a Qualifying Transaction.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of dates otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified above and elsewhere in this MD&A, actual events may differ materially from current expectations. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **DESCRIPTION OF SHARE CAPITAL OF IRON SPRINGS**

### **Common Shares**

The Corporation is authorized to issue an unlimited number of IS Shares without nominal or par value of which, as at the date hereof, 2,320,000 are issued and outstanding as fully paid and non-assessable. In addition, 100,000 IS Shares are reserved for issuance pursuant to the IS Agent’s Option and 150,000 IS Shares are reserved for issuance pursuant to the IS Options.

The holders of IS Shares are entitled to dividends, if, as and when declared by the Board of Directors, to one vote per share at the meetings of the shareholders of the Corporation and, upon liquidation, to share equally in such assets of the Corporation as are distributable to the holders of IS Shares.

### **Preferred Shares**

The Corporation is authorized to issue an unlimited number of preferred shares (the “**Preferred Shares**”). The Preferred Shares may be issued from time to time in one or more series, each consisting of a number of Preferred Shares as determined by the board of directors of the Corporation which also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares. The Preferred Shares of each series, shall, with respect to payment of dividends and distribution of assets in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, rank on a parity with the Preferred Shares of every other series and shall be entitled to preference over the IS Shares and the shares of any other class ranking junior to the Preferred Shares. As at the date hereof, there are no Preferred Shares issued or outstanding.

## PRIOR SALES

Since the date of incorporation, 2,320,000 IS Shares have been issued as follows:

Date	Number of IS Shares	Issue Price Per Share	Aggregate Issue Price	Consideration Received
March 15, 2005	1 <sup>(1)</sup>	\$1.00	\$1.00	cash
April 12, 2005	1,120,000 <sup>(2)</sup>	\$0.125	\$140,000	cash
July 7, 2005	1,200,000	\$0.25	\$300,000	cash
<b>Total:</b>	<b>2,320,000</b>			

**Notes:**

- (1) This IS Share was repurchased by the Corporation on April 12, 2005 and the \$1.00 consideration was deducted from the stated capital account for Common Shares.
- (2) These IS Shares are currently held in escrow. See “Escrowed Securities”.

## CAPITALIZATION OF IRON SPRINGS

The following table states the share and loan capitalization of the Corporation as at April 30, 2005 (being the date of the last audited financial statements) and July 31, 2005 (being the last quarter ended prior to the effective date of this Circular). This table should be read in conjunction with the financial statements of the Corporation and the accompanying notes thereto, attached as Schedule 2.

Designation of Security	Amount Authorized or to be Authorized	Amount Outstanding as of April 30, 2005 <sup>(1)</sup>	Amount Outstanding as of July 31, 2005 <sup>(1)</sup>
IS Shares	Unlimited	\$140,000 (1,120,000 IS Shares)	\$349,212 (2,320,000 IS Shares)
Preferred Shares	Unlimited	Nil	Nil
Long-Term Debt	N/A	Nil	Nil

**Note:**

- (1) Net of share issuance costs.

## ESCROWED SECURITIES

All of the 1,120,000 IS Shares issued prior to the prospectus offering and all IS Shares that may be acquired from treasury of the Corporation by Non-Arm’s Length parties of the Corporation either under the prospectus offering or otherwise prior to completion of the Qualifying Transaction will be deposited with the trustee under the Escrow Agreement.

All IS Shares acquired on exercise of stock options prior to the completion of a Qualifying Transaction, must also be deposited in escrow and will be subject to escrow until the Final Exchange Bulletin is issued.

In addition, all IS Shares acquired in the secondary market prior to the completion of a Qualifying Transaction by a control person are required to be deposited in escrow. Subject to certain exemptions permitted by the Exchange, all securities of the Corporation held by principals of the Resulting Issuer will also be escrowed.

Notwithstanding the foregoing, IS Shares acquired by principals of the Corporation or principals of the Resulting Issuer pursuant to a private placement will not be subject to escrow provided that various conditions, as set forth in Policy 2.4, are met.

The following table sets out, as at the date of this Circular, the number of IS Shares which are held in escrow:

<b>Name And Municipality Of Residence of Shareholder</b>	<b>Number of IS Shares Escrowed</b>	<b>Percentage of IS Shares Prior to Giving Effect to the Amalgamation</b>	<b>Percentage of IS Shares of After Giving Effect to the Amalgamation</b>
A. Murray Sinclair Vancouver, British Columbia	40,000	1.7%	0.1%
K. Peter Miller West Vancouver, British Columbia	40,000	1.7%	0.1%
Stewart Robertson Vancouver, British Columbia	40,000	1.7%	0.1%
Quest Capital Corp. <sup>(1)</sup> Vancouver, British Columbia	1,000,000	43.1%	1.7%

**Note:**

- (1) Quest Capital Corp. is a publicly traded corporation which trades on the TSX. Mr. Sinclair is a director and officer of Quest Capital Corp. and Mr. Miller is Chief Financial Officer of a subsidiary of Quest Capital Corp.

Under the Escrow Agreement, 10% of the escrowed IS Shares will be released from escrow on the issuance of the Final Exchange Bulletin (the “**Initial Release**”) and an additional 15% will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the Initial Release.

If the Resulting Issuer meets the Exchange’s Tier 1 Minimum Listing Requirements either at the time the Final Exchange Bulletin is issued or subsequently, the release of the escrowed IS Shares will be accelerated. An accelerated escrow release will not commence until the Resulting Issuer has made application to the Exchange for listing as a Tier 1 Issuer and the Exchange has issued a bulletin that announces the acceptance for listing of the Resulting Issuer on Tier 1 of the Exchange.

The Exchange’s prior consent must be obtained before a transfer within escrow of escrowed IS Shares. Generally, the Exchange will only permit a transfer within escrow to be made to incoming principals in connection with a proposed Qualifying Transaction.

If a Final Exchange Bulletin is not issued, the escrowed IS Shares will not be released. Under the Escrow Agreement, each Non Arm’s Length Party to the Corporation who holds escrowed IS Shares acquired at a price below the offering price under this prospectus has irrevocably authorized and directed the Trustee to immediately cancel all of those escrowed IS Shares upon the issuance by the Exchange of a bulletin delisting the IS Shares.

### **ESCROWED SECURITIES ON QUALIFYING TRANSACTION**

Generally, if at least 75% of the securities issued pursuant to the Qualifying Transaction are “**Value Securities**”, then all the securities issued to principals of the Resulting Issuer pursuant to the Qualifying Transaction will be deposited into escrow pursuant to a value security agreement (the “**Value Security Escrow Agreement**”). “**Value Securities**” are securities issued pursuant to a transaction for which the deemed value of the securities at least equals the value ascribed to the asset, using a valuation method acceptable to the Exchange, or securities that are otherwise determined by the Exchange to be Value Securities and required to be placed in escrow under a Value Security Escrow Agreement. However, if at least 75% of the securities issued pursuant to the Qualifying Transaction are not Value Securities, all

securities issued pursuant to the Qualifying Transaction will be deposited into a surplus security escrow agreement (a “**Surplus Security Escrow Agreement**”).

The principal distinction between a Value Security Escrow Agreement and a Surplus Security Escrow Agreement is the time period for release of securities from escrow. In the case of a Resulting Issuer that will be a Tier 2 Issuer when the Final Exchange Bulletin is issued, the Value Security Escrow Agreement provides for a three year escrow release mechanism with 10% of the escrowed securities being releasable at the time of the Final Exchange Bulletin, and 15% of the escrowed securities being releasable every 6 months thereafter, on each of the 6, 12, 18, 24, 30 and 36 month anniversaries of the Final Exchange Bulletin. In the case of a Resulting Issuer that will be a Tier 2 Issuer, when the Final Exchange Bulletin is issued, the Surplus Security Escrow Agreement provides for a six-year escrow release mechanism with:

- (a) 5% of the escrowed securities being releasable in 6 month intervals on each of the 6, 12, 18 and 24 month anniversaries of the Final Exchange Bulletin; and
- (b) 10% of the escrowed securities being releasable in 6 month intervals on each of the 30, 36, 42, 48, 54, 60, 66 and 72 months after the Final Exchange Bulletin.

In the case of a Resulting Issuer that will be a Tier 1 Issuer when the Final Exchange Bulletin is issued, the Value Security Escrow Agreement provides for an 18 month escrow release mechanism with 25% of the escrowed securities being releasable at the time of the Final Exchange Bulletin, with 25% of the escrowed securities being releasable every 6 months thereafter. In the case of a Resulting Issuer that will be a Tier 1 Issuer when the Final Exchange Bulletin is issued, the Surplus Security Escrow Agreement provides for a three-year escrow release mechanism with:

- (a) 10% of the escrowed securities being releasable upon the issuance of the Final Exchange Bulletin, and
- (b) 15% of the escrowed securities being releasable in 6 month intervals on each of the 6, 12, 18, 24, 30 and 36 months after the Final Exchange Bulletin.

## **TRADING HISTORY**

The IS Shares were first listed on the Exchange on July 13, 2005. The last market price on October 14, 2005 (the last trading day prior to the date of this Circular) at which a trade in IS Shares was executed was \$1.30 on a volume of 11,500 IS Shares. The IS Shares trade under the symbol “ISP.P” on the Exchange.

The following table sets forth the high and low closing prices and volumes of the trading of the IS Shares for the periods indicated:

	Price Range		
	(\$ High	(\$ Low	Trading Volume
<b>October - 2005</b>			
October 14	1.30	1.15	11,500
October 13	-	-	-
October 12	-	-	-
October 11	-	-	-
October 7	-	-	-
October 6	1.30	1.30	5,000
October 5	1.25	1.17	24,000
October 4	-	-	-
October 3	-	-	-
<b>September - 2005</b>			
September 30	1.15	1.15	5,000
September 29	1.15	1.15	1,000
September 28	1.15	1.10	6,000
September 27	1.15	1.05	24,925
September 26	-	-	-
September 23	-	-	-
September 22	1.25	1.25	103,740
September 21	-	-	-
September 20	1.18	1.17	4,500
September 19	1.20	1.05	106,025
September 16	-	-	-
September 15	-	-	-
September 14	1.00	1.00	9,000
September 13	1.00	1.00	6,000
September 12	0.95	0.93	6,500
September 9	0.90	0.90	4,000



	Price Range		
	(\$ High	(\$ Low	Trading Volume
September 8	1.00	0.95	28,000
September 7 <sup>(1)</sup>	1.00	0.70	135,500
<b>August - 2005</b>			
August 11 <sup>(1)</sup>	0.70	0.70	-
August 10	0.70	0.70	-
August 9	0.70	0.70	3,000
August 8	-	-	-
August 5	-	-	-
August 4	-	-	-
August 3	-	-	-
August 2	0.64	0.64	8,000
<b>July - 2005</b>			
July 29	0.60	0.60	3,000
July 28	0.60	0.55	12,000
July 27	-	-	-
July 26	0.50	0.50	4,000
July 25	-	-	-
July 22	-	-	-
July 21	-	-	-
July 20	-	-	-
July 19	-	-	-
July 18	0.60	0.55	15,000
July 15	0.55	0.50	16,000
July 14	0.45	0.45	20,000
July 13	0.50	0.45	20,000

**Note:**

- (1) Trading in the IS Shares was halted on August 11, 2005 at the request of the Corporation pending announcement of the Letter of Intent with Kaboose. Trading in the IS Shares was reinstated on September 7, 2005.

## PROMOTERS

Quest Capital Corp. is considered to be the promoter of the Corporation in that Quest Capital Corp. took the initiative in founding and organizing the Corporation.

## DIRECTORS AND OFFICERS OF THE CORPORATION

The following table sets forth the names, municipalities of residence and descriptions of the directors and senior officers of the Corporation, their positions and offices with the Corporation, their occupations for the last five years and the number of IS Shares held as at the date of this Circular and IS Shares upon completion of the Amalgamation.

Name, Position, Date Appointed Director and Residence	Principal Occupation for the Previous Five Years	Number and Percentage of IS shares Held or Controlled as at the date of this Circular <sup>(1)(2)</sup>	Number and Percentage of IS Shares Held or controlled Upon completion of the Amalgamation <sup>(3)</sup>
<b>A. Murray Sinclair</b> President, Chief Executive Officer, Chief Financial Officer and Director March 15, 2005 Vancouver, British Columbia	Since June 30, 2003, Mr. Sinclair has been Managing Director of Quest Capital Corp. (formerly quest Investment Corp.), quest Capital Corp. trades on the Toronto Stock Exchange (the "TSX") under the symbol QC. Quest Capital Corp. is a merchant bank that provides financial services to small and mid-cap companies operating primarily in North America. From July 2002 to June 2003. Mr. Sinclair was President and a director of Quest Investment Corp., a public company whose shares traded on the TSX.	40,000 (1.7%)	40,000 (<1%)
<b>K. Peter Miller</b> Director April 11, 2005 West Vancouver, British Columbia	Mr. Miller is currently the Chief Financial Officer of Quest Management Corp., a management company that is wholly-owned by Quest Capital Corp. From 1988 to 1997, he was the Treasurer of Quest Oil and Gas Inc. (formerly Quest Capital Corporation).	40,000 (1.7%)	40,000 (<1%)
<b>Stewart Robertson</b> Director April 11, 2005 Vancouver, British Columbia	Mr. Robertson has been the President of Crerar Development Corp. since July, 1994. Mr. Robertson is also a director of Sterling Centrecorp Inc. a company listed on the TSX.	40,000 (1.7%)	40,000 (<1%)

**Notes:**

- (1) IS Shares beneficially owned, directly or indirectly, or over which control or direction is exercised, as at the date of this Circular, based upon information furnished to the Corporation by the above individuals. The information above does not include IS Options.
- (2) Assumes 2,320,000 IS Shares issued and outstanding.
- (3) Assumes the completion of the Amalgamation, no exercise of any outstanding options or warrants and 58,643,413 Amalco Shares outstanding.

## EXECUTIVE COMPENSATION

### Compensation of Directors

As at July 31, 2005, the Corporation has paid no cash compensation (including salaries, director’s fees, commissions, bonuses paid for services rendered, bonuses paid for services rendered in a previous year, and any compensation other than bonuses earned by the directors for services rendered) to the directors for services rendered in their capacity as directors other than reimbursement of reasonable expenses. However, at various times in the past, directors and officers of the Corporation have been granted options to purchase IS Shares and it is anticipated that various directors and officers will receive options concurrently with the closing of the Amalgamation. *See - “Stock Options”*.

Executive officers of the Corporation who also act as directors of the Corporation do not receive any additional compensation for services rendered in such capacity, other than as paid by the Corporation to such executive officers in their capacity as executive officers. *See - “Compensation of Executive Officers”*.

### Compensation of Executive Officers

As at July 31, 2005, the Corporation had one executive officer, who continues to hold such office. “**Executive officer**” means the chairman and any vice-chairman of the board of directors, president or any vice-president and any officer of the Corporation who performs a policy making function in respect of the Corporation. The aggregate cash compensation, including salaries, fees (including director’s fees), commissions, bonuses paid for services rendered, bonuses paid for services rendered in a previous year, and any compensation other than bonuses earned, paid to such Executive Officer, by the Corporation or its subsidiaries for services rendered during the most recently completed financial year was nil.

### Summary Compensation Table

The following table sets forth all annual and long term compensation for services in all capacities to the Corporation in the past financial year in respect of individual(s) who were acting in a capacity similar to a chief executive officer and chief financial officer (the “**Named Executive Officers**”). No executive officer earned in excess of \$150,000 per annum.

SUMMARY COMPENSATION TABLE								
Name and Principal Position	Period Ended July 31	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation	Awards		Payouts	
					Securities Under Options/SAR <sup>(1)</sup> Granted (#)	Shares or Units Subject to Resale Restrictions (\$)	LTIP <sup>(2)</sup> Payouts (\$)	
A. Murray Sinclair President, Chief Executive Officer and Chief Financial Officer	2005	Nil	Nil	Nil	50,000	Nil	Nil	Nil

**Notes:**

- (1) “SAR” or “Stock appreciation right” means a right, granted by the Corporation or its subsidiaries as compensation for employment services or office to receive cash or an issue or transfer of securities based wholly or in part on changes in the trading price of publicly traded securities of the Corporation.
- (2) “LTIP” or “long term incentive plan” means a plan providing compensation intended to motivate performance over a period greater than one financial year. LTIP’s do not include option or SAR plans or plans for compensation through shares or units that are subject to restrictions on resale.

**STOCK OPTIONS**

The Corporation has adopted an incentive stock option plan (previously defined as the “**Plan**”) which provides that the Board of Directors of the Corporation may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Corporation, non-transferable options to purchase IS Shares, provided that the number of IS Shares reserved for issuance, together with any options issued to eligible charitable organizations, will not exceed 10% of the issued and outstanding IS Shares. Such options will be exercisable for a period of up to 5 years from the date of grant. In connection with the foregoing, the number of IS Shares reserved for issuance to: (a) any individual director or officer will not exceed five percent (5%) of the issued and outstanding IS Shares; (b) all technical consultants will not exceed two percent (2%) of the issued and outstanding IS Shares; and (c) all eligible charitable organizations will not exceed one percent (1 %) of the issued and outstanding IS Shares. Options may be exercised at the later of 12 months after completion of the Qualifying Transaction and 90 days following cessation of the optionee’s position with the Corporation, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. Any IS Shares acquired pursuant to the exercise of options prior to completion of the Qualifying Transaction, must be deposited in escrow and will be subject to escrow until the Final Exchange Bulletin is issued. *See “Escrow Securities”.*

The following table shows options to acquire IS Shares as of the date of this Circular:

<b>Optionee</b>	<b>Number of IS Shares Reserved Under Option</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
A. Murray Sinclair	50,000	\$0.25	July 7, 2010
K. Peter Miller	50,000	\$0.25	July 7, 2010
Stewart Robertson	50,000	\$0.25	July 7, 2010
	<b>150,000</b>		

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table sets forth securities of the Corporation that are authorized for issuance under equity compensation plans as at the end of the Corporation’s most recently completed financial year:

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Outstanding Securities Reflected at Column 1)</b>
Equity compensation plans approved by securityholders	150,000	\$0.25	82,000

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Outstanding Securities Reflected at Column 1)</b>
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
<b>Total</b>	<b>150,000</b>	<b>\$0.25</b>	<b>82,000</b>

### **LONG-TERM INCENTIVE PLANS**

The Corporation has not had and does not currently have any long-term incentive plans, other than stock options to be granted from time to time by the board of directors of which there are currently no options outstanding.

### **STOCK APPRECIATION RIGHTS (“SAR”) AND RESTRICTED SHARES**

No stock appreciation rights or restricted shares were granted by the Corporation to, or exercised by, the Named Executive Officers of the Corporation in the three most recently completed financial years.

### **STOCK OPTION AND SAR REPRICING**

The Corporation did not make any downward repricing of stock options or stock appreciation rights in the three most recently completed financial years.

### **PENSION AND RETIREMENT PLANS AND PAYMENTS MADE UPON TERMINATION OF EMPLOYMENT**

The Corporation does not have in place any pension or retirement plan. The Corporation has not provided compensation, monetary or otherwise, during the preceding year, to any person who now acts or has previously acted as a Named Executive Officer of the Corporation, in connection with or related to the retirement, termination or resignation of such person and the Corporation has provided no compensation to such persons as a result of a change of control of the Corporation, its subsidiaries or affiliates. The Corporation is not party to any compensation plan or arrangement with the Named Executive Officers resulting from the resignation, retirement or the termination of employment of such person.

### **EMPLOYMENT AND MANAGEMENT CONTRACTS**

The Corporation has no employment or management contracts with directors or the Named Executive Officers.

### **OTHER COMPENSATION**

Other than as herein set forth, the Corporation did not pay any additional compensation to the Named Executive Officer or directors (including personal benefits and securities or properties paid or distributed which compensation was not offered on the same terms to all full time employees) during the last completed financial year.

## **NON-ARM'S LENGTH PARTY TRANSACTIONS**

The Proposed Qualifying Transaction is not a Non Arm's Length Qualifying Transaction.

## **MANAGEMENT CONTRACTS**

The Corporation has no management contracts or other arrangements in place where management functions are performed by a person other than the directors or officers of the Corporation.

## **MATERIAL CONTRACTS**

The Corporation has not entered into any material contracts within the two years prior to the date of this Circular, other than the following:

1. Transfer Agency and Registrarship Agreement dated as of June 14, 2005 between the Corporation and Computershare;
2. Agency Agreement dated as of June 17, 2005 between the Corporation and Haywood Securities Inc. with respect to the Corporation's Initial Public Offering;
3. Escrow Agreement dated as of June 14, 2005 among the Corporation, Computershare and those shareholders that executed such agreement. See "*Escrow Securities*";
4. Qualifying Transaction Agreement dated October 17, 2005 among the Corporation, Kaboose and Jason DeZwirek; and
5. Engagement Letter dated September 16, 2005, among the Corporation, Kaboose and the Agent.

Copies of these agreements are available for inspection at the registered office of the Corporation located at the offices of Borden Ladner Gervais LLP, solicitors for the Corporation, located at Suite 1000, 400 Third Avenue S. W., Calgary, Alberta, during ordinary business hours.

Immediately preceding the Amalgamation, the Corporation will enter into the Amalgamation Agreement with Kaboose.

An escrow agreement will be entered into among the Corporation, various former holders of Kaboose Shares and Computershare, as escrow agent, upon closing of the Amalgamation.

## **INDEBTEDNESS OF DIRECTORS, SENIOR OFFICERS, EXECUTIVE OFFICERS AND OTHER MANAGEMENT**

No director, senior officer, executive officer, promoter, member of management, nominee for election as director of the Corporation or any associates or affiliates thereof is or has been indebted to the Corporation or any of past its subsidiaries other than routine indebtedness, during the most recently completed financial year.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATTERS TO BE ACTED UPON OR MATERIAL TRANSACTIONS**

Management is not aware of any material interest in any matter to be acted upon, or any material transaction, direct or indirect, of any director or senior officer of the Corporation, or of any person

beneficially owning, directly or indirectly, more than 10% of the Corporation's voting securities or any associate or affiliate thereof, other than as set out elsewhere in this Circular.

### **RELATIONSHIP BETWEEN ISSUER AND EXPERTS**

Neither Borden Ladner Gervais LLP nor Davidson & Company or any director, officer, employee or partner thereof received or has received a direct or indirect interest in the property of the Corporation or of any associate or affiliate of the Corporation. Except for less than 1 % of the IS Shares held by lawyers of Borden Ladner Gervais LLP, no person or company whose profession or business (including Davidson & Company) gives authority to a statement made by such person or company and who is named as having prepared or certified a part of this Circular holds any beneficial interest, direct or indirect, in any securities or property of the Corporation or of Kaboose or of an Associate or Affiliate of the Corporation or Kaboose.

### **DIVIDEND POLICY**

No dividends have been paid on any class of shares of the Corporation since the date of its incorporation and it is not contemplated that any dividends will be paid in the immediate or foreseeable future.

### **AUDITORS, TRANSFER AGENTS AND REGISTRAR**

#### **Auditors**

The current auditor of the Corporation is Davidson & Company LLP, Chartered Accountants, 1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, British Columbia, V7Y 1G6. At the Meeting, the IS Shareholders will be asked to approve the reappointment of Davidson as the auditors of the Corporation and to authorize the board of directors to fix their remuneration.

#### **Transfer Agent**

Computershare Trust Company of Canada, at its Vancouver office located at, 510 Burrard Street, 2<sup>nd</sup> Floor, Vancouver, British Columbia, V6C 3B9, is the transfer agent and registrar for the IS Shares.

### **LEGAL PROCEEDINGS**

Management of the Corporation is not aware of any legal proceedings, contemplated or actual, involving the Corporation which could materially affect the Corporation, Kaboose or the Resulting Issuer.

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information of the Corporation's most recently completed interim period is provided in the Corporation's financial statements and management discussion and analysis available on SEDAR. A shareholder may contact the Corporation at Suite 300, 570 Granville Street, Vancouver, British Columbia, V6C 3P1, Attention: President, to obtain a copy of the Corporation's most recent financial statements and management discussion and analysis.

### **BOARD APPROVAL**

The contents as related to the Corporation and the sending of this Circular have been approved by the board of directors of the Corporation.

**PART V**  
**INFORMATION REGARDING KABOOSE INC.**

**NAME AND INCORPORATION**

Kaboose was incorporated pursuant to the provisions of the *Business Corporations Act* (Ontario) on October 8, 1999 under the name “Kaboose.com Inc.” Pursuant to Articles of Continuance, Kaboose.com Inc. continued under the provisions of the CBCA on November 22, 1999 and subsequently changed its name on January 11, 2002. On June 22, 2004, Kaboose filed Articles of Amendment to consolidate all issued and outstanding Kaboose common shares on the basis of three old Kaboose common shares for one new Kaboose common share. Kaboose common shares issued prior to June 22, 2004 were 3,702,330 and subsequent to June 22, 2004 were 1,234,110. Kaboose is not currently a “reporting issuer” in any jurisdiction of Canada and none of its securities have traded on any stock exchange. The current directors of Kaboose are Jason DeZwirek, Jonathan Graff, Eric Yuzpe, Michael Winton and Ray Benzinger. The current officers of Kaboose are Jason DeZwirek, as the Chairman and Chief Executive Officer, Jonathan Graff, as the President and Jonathan Pollack, as the Chief Financial Officer. Pursuant to the Kaboose Shareholders Meeting, the Shareholders will consider for approval the Kaboose Stock Split.

The head office of Kaboose is located at 1400 – 505 University Avenue, Toronto, Ontario, M5G 1X3 and the registered and records office of Kaboose is located at 1600 – 130 King Street West, Toronto, Ontario M5X 1J5.

**INTERCORPORATE RELATIONSHIPS**

Kaboose owns 100% of the issued and outstanding shares of Kaboose Holdings LLC, a Delaware corporation, which itself in turn owns 100% of the issued and outstanding shares of both Kaboose Com Inc. and Kaboose Services Inc., both Delaware corporations. Kaboose Holdings LLC is a holding company for Kaboose’s U.S. activities and assets, Kaboose Com Inc. owns Kaboose’s commerce assets and Kaboose Services Inc. is Kaboose’s U.S. sales organization.

**GENERAL DEVELOPMENT OF THE BUSINESS OF KABOOSE**

**History**

Kaboose.com Inc. was co-founded in 1999 by Jason DeZwirek (Chairman and Chief Executive Officer) and Eric Yuzpe (President of Kaboose Services Inc.) to develop interactive educational and entertainment media, specifically targeting children and families as well as offering corporate clients customized turnkey technology-based solutions to strengthen their relationships with target audiences online. Through various corporate reorganizations and name changes, Kaboose.com Inc. has matured into its current corporate state (*See - “Part V – Information Regarding Kaboose Inc. – Name and Incorporation”*). While the development business enabled Kaboose to prove its ability to create engaging interactive resources for clients, management decided with the growth of the online sector and its rapid adoption by kids and families, true long term sustainable value could be created by acquiring and building online assets. Thus, in 2001, Kaboose refocused its strategy to establish an Internet property that offered kids and their families a safe and secure environment online with educational and entertainment value.

Beginning in 2001, Kaboose undertook a detailed analysis of the kids and family online space and completed the acquisitions of three award-winning online properties in 2001 and early 2002. Kaboose acquired the three properties, “Kidsdomain” (based in New York), “Funschool” (based in California) and “Zeeks” (based in Oregon), at substantial discounts to the total capital that had already been invested in each, as well as to the cost of creating the content, users and brands.



Following these acquisitions, Kaboose focused on integrating each of the properties into its network of assets and in July 2003, officially launched the “**Kaboose Network**” as an online media business generating revenues through advertising.

After the launch of the Kaboose Network in July 2003, Kaboose acquired, in August 2004, “Berit's Best”, a directory of children’s websites, and in September 2004, “Campsearch”, one of the leading search engines for parents looking for summer camps for their children, to complement its online property offering. In addition, effective January 2005, Kaboose acquired all material assets of Birthday in a Box, Inc. (“**BIAB**”) which provided Kaboose with an entrance into the kids and family ecommerce sector. BIAB is one of the leading online children’s party supply retail businesses in the U.S.

## SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

Kaboose has not completed any significant dispositions in the most recently completed financial year or the current financial year for which pro forma financial statements would be required.

Effective January 1, 2005, a newly formed wholly-owned U.S. subsidiary of Kaboose purchased all material assets of BIAB. Under the terms of the arm’s-length all-cash deal, Kaboose purchased BIAB’s name, intellectual property, domain names, furniture and equipment, durable goods, office supplies and all other assets. The purchase price was US\$225,000, an assumption of certain liabilities which would not exceed US\$415,000 plus additional liabilities assumed in the amount of US\$17,836. The maximum potential consideration for this purchase is US\$657,836 and, apart from the assumption of the noted liabilities, there are no on-going material obligations in respect of this acquisition affecting Kaboose. BIAB generated 2004 revenue of approximately CDN\$1,600,000.

## NARRATIVE DESCRIPTION OF THE BUSINESS OF KABOOSE

### General

Currently, Kaboose is the largest independent online media company in the kids and family market in North America and is a top-10 global Internet destination for kids and families looking for entertaining, interactive and educational content, as measured by comScore Media / Metrix, a third-party provider of Internet audience measurement services (see table below). Kaboose reaches in excess of 6.5 million unique users. Kaboose generates revenues from branded advertising on its websites as well as commerce through BIAB.

#### Top 10 US Kids Properties

1. Disney \*
2. Mattel Sites \*
3. Nickelodeon \*
4. Cartoon Network \*
5. NeoPets
6. AOL / KOL \*
7. Yahoo!igans \*
8. PBS Kids \*
9. **Kaboose Network**
10. Hasbro \*

\* **Kaboose Client**

#### Top 10 US Family Properties

1. Disney \*
2. Women's Forum Sites
3. Nickelodeon \*
4. AOL Parenting
5. Babycenter Sites
6. MSN Family
7. **Kaboose Network**
8. Family Education Network \*
9. Fisher Price \*
10. GreatSchools.net

\* **Kaboose Client**

#### Note:

- (1) Source: comScore Media/Metrix

As the chart above illustrates, one of Kaboose's key advantages is that most of its competitors are also clients. Given that Kaboose is the only independent in both of the top 10 lists, Kaboose is able to generate revenues from each of its competitors who otherwise prefer not to advertise on each other's properties. In addition, since Kaboose is primarily focused on kids and family online advertising, its multinational clients know that Kaboose's properties are promoting their advertisements and not Kaboose's other multimedia subsidiaries.

As of the Record Date, Kaboose has raised approximately \$10,000,000 from private capital sources including Dynamic Ventures Opportunity Fund, Jason DeZwirek (Kaboose's Chairman and Chief Executive Officer), Harold Gordon (Chairman of Dundee Bancorp and Former Vice Chairman of Hasbro, Inc.), Ruby Osten (Founder and Former CEO of PC Docs, Inc.) and Harvey Sandler (Founder of New York-based Sandler Capital Management). These funds have been utilized in the expansion of Kaboose's business and the acquisition of the properties above.

### Principal Products

The Kaboose Network comprises three online properties and a kids and family search engine: Funschool.com, Zeeks.com, Kidsdomain.com and Kaboose Search, as well as Birthday in a Box (see graphics below). As noted in "Part V – Information Regarding Kaboose Inc. – Narrative Description of the Business – General", the three properties combined have in excess of 12,000 pages of content and over 500 proprietary games and educational activities. This content along with Kaboose's monthly traffic and extensive Fortune 500™ client base creates significant barriers to entry for new industry participants.



Kaboose obtained approximately 95% of its 2004 revenue from clients in the U.S., including many Fortune 500™ companies. As a result, Kaboose's client list is one of Kaboose's core assets. Kaboose's clients include Nestle, Kellogg's, General Motors, General Mills, Frito-Lay, Royal Bank of Canada, Rogers Communications, Mega Bloks and the National Hockey League. Kaboose has established, through experience, that a strong base of reputable clients attracts other large advertisers, as well as their competitors.

### Operations

Kaboose's operations are focused on the content and production of its websites and sales and sales support to its advertising customers.

Kaboose performs most of its own content development and production internally with its creative team made up of many leaders in the sector. The majority of the cost of the product is in employee wage expenditures, as well as the licensing of some third party content. Kaboose expects that it will continue to expand its creative and design team as the Resulting Issuer increases its presence in the market and expands its product offering.

Since May 2005, Kaboose has been working together with an outside firm in the redesign of its products, expected to be launched in early 2006. This project was initiated to enhance the overall Kaboose Network and provide a better experience for its users and advertisers. Kaboose expects this redesign to be one of its major capital and project initiatives for the next few years.

Kaboose's sales and sales support team is led through its New York and Toronto offices with salespeople located in Chicago, New York, Los Angeles and Toronto. Kaboose's sales team is highly experienced and Kaboose expects to increase its total number of sales people to further increase revenues.

Kaboose operates out of 5,000 square feet of leased premises at 1400- 505 University Avenue, Toronto, Ontario, M5G 1X3, as well as a sales office in New York. Currently Kaboose has 45 full-time employees.

### **Business Strategy of Kaboose**

Management intends to continue to focus exclusively on the kids and family demographic. Kaboose believes that it is poised to benefit greatly from the growth of online advertising (See "*Part V – Information Regarding Kaboose Inc. – Background Industry Trends – Advertising Dollars Moving from Television and Print Advertising Towards Online Media*"). An accelerating percentage of new online ad spending is being directed towards demographically targeted online properties. The kids and family demographic spends an above average amount of time online. Kids between the ages of 4 and 12 spend over US\$27 billion per year and have influence on over US\$300 billion in consumer spending per year. In addition, mothers, the primary purchaser in the household, spend over US\$1.6 trillion per year.

To further build brand awareness with users and advertisers, Kaboose for the first time has recently started to invest money in marketing. As brand awareness increases, Kaboose will increase its total number of advertising clients, CPM rates (cost per thousand impressions, which is a measurement unit of a type of advertising unit, commonly used for pricing) and volume of ad impressions sold. Kaboose's CPM rates are still relatively low (US\$6 to US\$8) relative to some other online properties (US\$12 to US\$25) and relative to traditional full page magazine spreads (US\$65 to US\$90). In general, these rates are rising as advertisers begin to understand the effectiveness of online advertising as measured by direct and indirect methods.

Kaboose expects to continue to rollout new products and services, as well as develop additional distribution relationships. Kaboose believes that adding to its existing content offering and products will draw additional unique monthly visitors which in turn will continue to drive growth and penetration of its advertising clients. Kaboose currently has a number of distribution relationships, including Yahoo!™, where Kaboose provides access to its proprietary content and the distribution partners provide revenues, users and brand awareness. Kaboose has recently invested in building a business development team to pursue other distribution relationships that not only leverage Kaboose's existing products, but also the new products and services that are being introduced to the market.

Kaboose has been a consolidator in the sector, having successfully acquired and integrated six companies since its inception. Kaboose expects to continue to selectively acquire companies that complement its exclusive focus on the kids and family demographic. Potential acquisitions may be located in the United States and other countries around the world.

### **Marketing Plans and Strategies**

Kaboose has recently commenced marketing to its users and its advertisers and expects most of its marketing budget to be targeted to its network users. Twenty-five percent of Kaboose's marketing budget

will be targeted towards clients and 75% of the marketing budget will be targeted to network users. Kaboose's marketing program will include advertising on the Internet, trade publications and trade shows, focused public relations targeting the consumer and distribution relationships with leading brands as described above.

### **Competitive Conditions**

Kaboose operates in a dynamic and expanding sector. The online kids and family space has grown significantly over the past three years and today, the major players are mostly multinational media and toy companies. In fact, of the top ten companies in both the kids and family market in the U.S., Kaboose is the only independent company.

Kaboose's principal competitors include Disney, Nickelodeon, Cartoon Network and AOL. Notwithstanding, each of these companies is also a Kaboose client and most of them have increased their advertising spending on the Kaboose Network in the past year. From a competitive perspective, Kaboose is considered a lower cost provider than its multinational competitors. However, pricing in the sector has started to increase and Kaboose expects that it will follow this trend and be able to increase prices charged to clients.

### **Background on Industry Growth and Increases in Volume and Pricing**

According to a PriceWaterhouseCoopers report to the Internet Advertising Bureau completed in 2004, during and through 2001 and 2003, worldwide Internet penetration grew from 506.3 million users to 702.4 million users representing a compound annual growth rate of 17.8%. The number of global Internet users is expected to reach over 1 billion by 2007. Online advertising started approximately in 1995 and began to rapidly escalate in 1999. By 2000, online advertising was estimated at an US\$8.1 billion industry. During the downturn in the economy during 2001 and 2002, advertising dollars online declined to approximately US\$6 billion, while Internet penetration among United States households continued to rise.

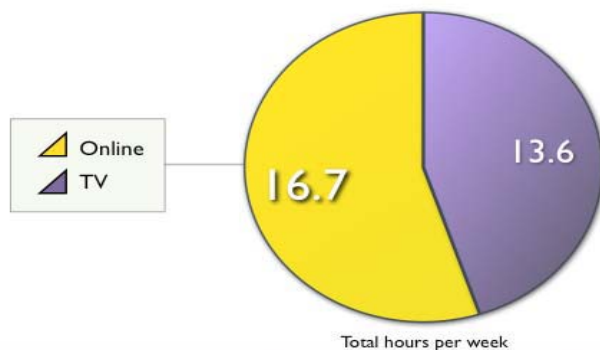
Internet advertising grew to a new high of US\$2.7 billion for the fourth quarter of 2004 growing 24% year-over-year, according to the latest publicly available independent research, conducted by PricewaterhouseCoopers for the Internet Advertising Bureau ("IAB"). This marks the fifth record breaking quarter of online advertising revenue according to the IAB. Online advertising revenue for 2004 totalled approximately US\$9.6 billion.

Industry analyst eMarketer Publication ("eMarketer") has published its latest data for advertising spending and predicts that online advertising will increase to approximately US\$11.5 billion in 2005 and US\$15.5 billion in 2007.

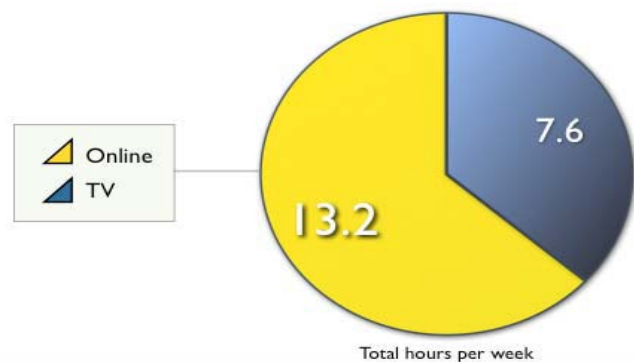
## Background Industry Trends — Advertising Dollars Moving from Television and Print Advertising Towards Online Media

eMarketer published predictions state that consumers have become accustomed to viewing media online and advertisers are beginning to transfer a portion of their advertising dollars from traditional media towards online delivery methods. In fact, according to Harris Interactive and C & R Research, kids and mothers are now spending more time online than watching television (see diagram below).

### Children's Time Online vs. TV



### Mother's Time Online vs. TV



As advertising and ad dollars ultimately follow the audience, industry analysts have predicted that the online advertising sector will expand at a double-digit rate over the next five-years. Increases in online advertising budgets are expected from reductions in the budgets of traditional advertising mediums including television and magazines.

## Background Industry Trends – Increased Importance of Demographically Focused Content

Demographically focused online advertising is becoming more important with major advertisers shifting their marketing budgets towards more focused channels targeting specific groups. Industry participants believe this will increase as many advertisers follow first movers towards a more focused online strategy and as content consumers become more sophisticated. The increasing popularity of web logs or "blogs" is an example of this increasing sophistication. Online advertisers with demographically focused content are well positioned to take advantage of the rapid growth occurring in the industry. Inexpensive quality online advertising inventory is becoming scarce as advertisers book high-traffic properties well in advance.

## Background Industry Trends – Increasing Barriers to Entry

Ownership of content is a key barrier to entry into the online advertising industry. Proprietary content draws audiences which in turn fuel advertising revenues. The investment required to gain critical mass in terms of content and audience provides a substantial barrier to entry to new participants, particularly within demographically focused segments. The success of companies like Yahoo™ and Google™ have

validated the online business model and it is no longer possible to buy online content assets at the fire sale prices of 2001 and 2002.

### **Background Industry Trends – Brand Advertising is Experiencing a Rebound Benefiting Proprietary Online Content Providers**

Brand advertising refers to advertising that focuses on customer education to build a brand or product awareness and recognition. Advertising dollars spent on banners and sponsorships (primarily brand advertising) declined sharply during 2001 and 2002, stabilized in 2003 and appear to be regaining momentum. Industry analysts believe that the demand for brand advertising online has increased due to a general recognition of the value and impact of online advertising by blue chip companies and major ad agencies.

Brand advertising, after declining from 2000 to 2003, has significantly increased over the last two years and is returning with increasing CPM rates and increasing volume of ad impressions. The beneficiaries of brand advertising online are primarily online publishers with a CPM based advertising model.

### **Industry Trends**

Over the past six months, the online advertising sector has experienced significant merger and acquisition activity as major media companies have recognized the value and importance of advertising online. Examples of some of the major acquisitions include:

<b>Announcement Date</b>	<b>Target</b>	<b>Acquiror</b>	<b>Acquisition Value (millions)</b>
September 2005	IGN Entertainment	The News Corp. Ltd.	US\$650
September 2005	LinkShare Corp.	Rakuten Inc.	US\$425
July 2005	Intermix Media, Inc.	The News Corp. Ltd.	US\$568
June 2005	Neopets	Viacom Inc.	US\$160
June 2005	Shopping.com Ltd.	eBay, Inc.	US\$524
February 2005	About.com (KKR)	The New York Times Co.	US\$410

### **Proprietary Protection - Intellectual Property**

#### *Strategy*

Kaboose seeks to protect its proprietary rights through a combination of technical experience, trade secret and trademark protection and nondisclosure agreements. Kaboose's future success will depend, in part, on its ability to obtain and enforce protection for its products and processes, preserve its trade secrets and operate without infringing on the proprietary rights of others.

Kaboose also seeks to protect trade secrets and proprietary know-how, in part, through appropriate confidentiality and proprietary information agreements. These agreements generally provide that all confidential information developed or made known to an individual during the course of his or her relationship with Kaboose is not to be disclosed to third parties, except in specific circumstances. They also generally provide that all inventions conceived by the individual in the course of his or her services to Kaboose are Kaboose's exclusive property.

## *Lending*

Management and the directors of Kaboose have not imposed any investment policies or any lending and investment restrictions on its business.

Kaboose has not undertaken and does not foresee any bankruptcy, or any receivership or similar proceedings against it or any of its subsidiaries or any voluntary bankruptcy, receivership or similar proceedings by it or any of its subsidiaries in any completed financial year, or the current financial year.

Apart from a one-for-three common share consolidation effected on June 4, 2004, Kaboose has not undergone or affected any material reorganization or any of its subsidiaries within the last three completed financial years, or in the current financial year.

## **STATED BUSINESS OBJECTIVES OF KABOOSE**

### **Objective**

Kaboose intends to maintain and grow its position as the largest independent children's and family online media company in North America.

### **Recent Developments**

#### *Heinz Marketing Relationship*

On October 11, 2005, Kaboose announced a co-marketing agreement with Heinz North America, a division of H.J. Heinz Company, L.P. (NYSE:HNZ) for Heinz's new product Silly Squirts™. The agreement marks Heinz' first online media launch of a product and will provide Kaboose with its largest offline exposure in the consumer product market.

Under a co-marketing agreement Heinz will be providing Kaboose label space on approximately 20 million Heinz base brand and Silly Squirts™ bottles in the United States that will showcase the Kaboose logo as well as promote a family vacation sweepstakes. Heinz will also promote the Micro-Site on both the Heinz main corporate website and the Heinz Silly Squirts™ website. Kaboose in return has developed a parent-focused, interactive Heinz micro-site within Kaboose.com. Kaboose will support the site and sweepstakes with a 12-month media campaign targeted at the millions of mothers who visit Kaboose.

#### *New Hire: Vice President of Kids and Educational Properties*

On September 15, 2005, Jason Hovey, the former General Manager of *Yahooligans!* and *Yahoo! Education*, signed an employment agreement with Kaboose to become Vice President of Kids and Educational Properties. Mr. Hovey will commence employment and his new duties with Kaboose on November 2, 2005.

## **SELECTED CONSOLIDATED FINANCIAL INFORMATION AND MANAGEMENT DISCUSSION AND ANALYSIS**

The selected financial information set forth below and certain of the comments which following are based on and derived from the financial statements of Kaboose for the year ended December 31, 2004, 2003 and 2002 and should be read in conjunction with those financial statements and the pro forma statements of the Resulting Issuer which are attached as Schedule 3 and 4, respectively, to this Circular. All financial information is presented in Canadian Dollars. Financial statements are prepared in accordance with

Canadian generally accepted accounting principles (Canadian GAAP). All references to common shares in this section are on a pre-stock split basis.

## Revenue

Kaboose recorded strong sales growth in 2004 as total sales revenue increased by 86.8% over 2003 which was a direct result of increased sales people. Kaboose posted significant increases in year over year sales revenues for the period from 2002 to 2004 with 2004 revenue of \$2,316,734 a record amount for Kaboose. Losses have also increased to \$1,252,732 in 2004.

	December 31, 2004 (audited)	December 31, 2003 (audited)	December 31, 2002 (audited)
Sales Revenue	\$2,316,734	\$1,239,948	\$541,658
Net Loss	\$(1,348,020)	\$(968,592)	\$(1,164,454)
Total Assets	\$3,328,019	\$566,751	\$636,615
Total convertible debentures and note payable	\$2,661,570	\$2,012,310	\$1,315,082
Cash dividends declared	\$Nil	\$Nil	\$Nil

## Expenses

The following are the major selling, operating and administrative expenses in the December 2004-2003 financial year-ends:

Selling, Operating and Administrative Expenses	December 31, 2004 (audited)	December 31, 2003 (audited)	% Change
Salaries, benefits and consulting fees	\$1,388,928	\$731,646	+89.8%
Commissions and advertising serving fees	\$824,408	\$435,126	+89.5%
Hosting, internet and server maintenance	\$344,122	\$390,007	-11.8%
Advertising and promotion	\$155,451	\$30,074	+416.9%
Professional fees	\$143,429	\$72,013	+99.2%
Rent and management fees	\$129,137	\$96,080	+34.4%
Automobile and travel	\$53,607	\$35,807	+49.7%

*Salaries, benefits and consulting fees* – The increase in 2004 was attributed to the expansion of Kaboose's work force to support increasing sales. The salaries, benefits and consulting fees as a percentage of sales revenue came in at 55.8% in 2004 compared to 59.9% in 2003.

*Commissions and advertising serving fees* – The increase in 2004 was directly attributed to the increase in sales since commissions are payable on the gross sales revenue. The commissions and advertising serving fees as a percentage of sales revenue was 35.6% in 2004 and this was reasonably comparable to the 35.1% of sales revenue for the 2003 expense.

*Hosting, internet and server maintenance* – The decrease of 11.8% was attributed to better rates negotiated with the hosting company in 2004.



*Advertising and promotion* – Increased advertising and promotion was required to grow sales revenue in 2004. As a percentage of sales, advertising and promotion was 6.7% in 2004 compared to 2.4% in 2003.

*Professional fees* – The 2004 year saw a major financing for Kaboose and as a result significant legal and audit fees were incurred.

*Rent and management fees* – The increase in 2004 was attributed to office space expansion at Kaboose's head office to accommodate the work force increase. Effective July 1, 2004, the monthly fee went from \$9,259 to \$12,263.

*Automobile and travel* – The increase in 2004 was attributed to the sales force expansion. As a percentage of sales, automobile and travel expense was 2.3% in 2004 compared to 2.9% in 2003.

### **Amortization**

Amortization increased slightly to \$150,914 during the year ended December 31, 2004 from the \$147,677 amount for the year ended December 31, 2003.

### **Interest on Class B Preferred Shares**

Interest on Class B Preferred Shares for the year ended December 31, 2004 was \$210,719 (2003- \$Nil). These shares were all issued in 2004 so there was no expense in 2003.

### **Interest on Convertible Debentures**

Interest on convertible debentures decreased to \$128,308 during the year ended December 31, 2004 from \$235,188 during the year ended December 31, 2003. The decrease in the expense in 2004 was attributed to the conversion of the debentures to equity during the 2004 year.

### **Net Loss**

Kaboose incurred a net loss for the year ended December 31, 2004 of \$1,348,020 compared to a net loss of \$968,592 for the year ended December 31, 2003.

### **Liquidity and Capital Resources**

#### *Liquidity*

At December 31, 2004, Kaboose had cash reserves of \$1,584,958 compared to \$40,380 as at December 31, 2003. The increase in cash in 2004 was attributed primarily to the major financing in 2004.

The following table identifies the Contractual Obligations of Kaboose as at December 31, 2004:

	<b>Total</b>	<b>Less Than 1 year</b>	<b>1 to 3 years</b>	<b>4-5 years</b>	<b>After 5 Years</b>
Long Term Note Payable	\$198,412	\$119,047	\$79,365	\$-	\$-
Class B Preferred Shares <sup>(1)</sup>	\$2,582,205	\$-	\$-	\$2,582,205	\$-
Operating Leases	\$367,903	\$147,161	\$220,742	\$-	\$-
Total Contractual Obligations	\$3,148,520	\$266,208	\$300,107	\$2,582,205	\$-

**Note:**

- (1) Convertible into Kaboose Shares at any time up to May 15, 2008.

At December 31, 2004, working capital totalled \$2,089,056 compared to \$201,726 at December 31, 2003. The current ratio at December 31, 2004 increased to 5.5:1 from the 2.3:1 ratio as at December 31, 2003.

As at December 31, 2004, Kaboose's working capital was sufficient to meet Kaboose's current requirements.

Accounts receivable increased 224% from \$275,758 as at December 31, 2003 to \$895,737 as at December 31, 2004. Accounts payable increased 69.4% from \$160,841 at December 31, 2003 to \$272,416 as at December 31, 2004. The increases in these accounts are attributed to larger amounts of working capital required to support higher sales volumes.

Long-term note payable and convertible securities (current and long-term portion) increased from \$2,012,310 at December 31, 2003 to \$2,780,617 at December 31, 2004. The increase in 2004 was attributed to a promissory note given in connection with the Campsearch.com acquisition in the amount of \$198,412 and convertible retractable preferred shares (liability-portion) issued in the amount of \$2,582,205. The increase was partially offset by \$2,012,310 in convertible debentures (liability-portion) outstanding at December 31, 2003, but converted in 2004 to Class A Preferred Shares of Kaboose.

Total assets increased to \$3,328,019 at December 31, 2004 from \$566,751 at December 31, 2003. This was attributed primarily to the increases in cash and accounts receivable in 2004.

Cash generated (used) in operating activities decreased to (\$1,361,414) for year ended December 31, 2004 compared to (\$319,260) for the year ended December 31, 2003. This was attributed primarily to a higher net loss in 2004 of \$1,348,020 (2003 - \$968,592) and an increase in accounts receivable in the amount of \$619,979 (2003 - \$159,688).

The major source of cash in 2004 was provided through the issue of \$3,350,001 of Class B Preferred Shares of Kaboose and convertible debentures of \$57,417.

The major source of cash in 2003 was provided through the issue of common shares in the amount of \$3,690 and convertible debentures in the amount of \$296,480.

The major use of cash during 2004 was to fund net loss, the purchase of property, plant and equipment in the amount of \$151,556, the purchase of websites and trademarks in the amount of \$52,353, repayment of notes payable of \$42,169 and development costs of \$255,348.

The major use of cash during 2003 was the purchase of property, plant and equipment, websites and trademarks.

*Capital Resources*

Kaboose completed the acquisition of BIAB in 2005 and is not committed to any other significant acquisitions or capital expenditures at present other than in the ordinary course of business.

**Share Capital**

As of December 31, 2004 there were 1,777,443 (2003 – 1,234,109) common shares issued and outstanding, 123,333 (2003 – 123,333) Kaboose Warrants outstanding at an exercise price of \$0.66

(2003 - \$0.66), and 1,277,333 (2003 – 685,833) stock options outstanding at exercise prices ranging from \$0.66 to \$0.90 (2003 - \$0.66).

During 2004, 4,466,670 (2003 – Nil) Class B Preferred Shares were issued for gross proceeds of \$3,350,001 (2003 – \$Nil). Also in 2004, 4,376,489 (2003 – Nil) Class A Preferred Shares and 543,334 common shares (2003 – Nil) were issued upon conversion of certain convertible debentures.

On June 22, 2004 Kaboose announced that the directors had approved a three-for-one reverse split of Kaboose’s common shares. All share and per share figures have been presented to reflect this change.

### **Related Party Transactions**

- (a) Rent and management fees of \$111,112 (2003 - \$96,080) paid to a corporation of which a shareholder of Kaboose is a director.
- (b) Included in salaries, benefits and consulting fees are salaries of \$367,495 (2003 - \$203,000) paid or payable to certain shareholders.
- (c) Included in accounts payable at year end are expenses payable to a shareholder in the amount of \$15,539 (2003 - \$59,025).

These related party transactions were in the normal course of operations and are recorded at the exchange amount agreed to by the related parties.

### **Year ended December 31, 2003 compared to December 31, 2002**

#### **Results of Operation**

##### *Revenue*

	<b>2003</b>	<b>2002</b>	<b>% Change</b>
Revenues	\$1,239,948	\$541,658	+128.9%

Kaboose recorded strong sales growth in 2003 as total sales revenue increased by 128.9% over 2002.

The Kaboose Network of websites (Funschool.com, Zeeks.com, and Kidsdomain.com) was launched in October 2002 which led to increased marketing opportunities in late-2002 and 2003. The result was substantial advertising revenue growth in fiscal 2003.

##### *Expenses*

The following are the major selling, operating and administrative expenses included in the December 31, 2003 total of \$1,825,675 (December 31, 2002 - \$869,993) of Kaboose:

<b>Selling, Operating and Administrative Expenses</b>	<b>2003</b>	<b>2002</b>	<b>% Change</b>
Salaries, benefits and consulting fees	\$731,646	\$325,030	+125.1%
Commissions and advertising serving fees	\$435,126	\$113,835	+282.2%
Hosting, internet and server maintenance	\$390,007	\$266,191	+46.5%
Advertising and promotion	\$30,074	\$14,901	+101.8%

<b>Selling, Operating and Administrative Expenses</b>	<b>2003</b>	<b>2002</b>	<b>% Change</b>
Professional fees	\$72,013	\$52,873	+36.2%
Rent and management fees	\$96,080	\$48,000	+100.2%
Automobile and travel	\$35,807	\$3,375	+961%

Salaries, wages, benefits and consulting fees – The increase in 2003 was attributed to the expansion of Kaboose’s work force to support increased sales. The salaries, benefits and consulting fees as a percentage of sales revenue came in at 59.0% in 2003 compared to 60.0% in 2002.

Commissions and advertising serving fees – The increase in 2003 was directly attributed to the increase in sales since commissions are payable on the gross sales revenue. The commissions and advertising serving fees as a percentage of sales revenue was 35.1% in 2003 versus 21.0% for 2002 as a result of higher ad server rates in 2003.

Hosting, internet and server maintenance – The increase of 46.5% in 2003 was attributed to more hosting services and maintenance required to support higher traffic volumes on the Kaboose Network.

Advertising and promotion – The increase in the 2003 expense of 101.8% over 2002 was consistent with the 128.9% increase in sales revenue in 2003 over 2002. Increased advertising and promotion was required to grow sales revenue in 2003. As a percentage of sales, advertising and promotion was 2.4% in 2003 compared to 2.8% in 2002.

Professional fees – The 2003 year saw Kaboose grow in terms of revenue and general activity which resulted in higher legal and audit fees.

Rent and management fees – The increase in 2003 was attributed to office premises rate increases from \$4,000 per month in 2002 to \$4,975 (Jan-Mar/03) and to \$8,042 (Apr-Dec/03).

Automobile and travel – The increase in 2003 was attributed to increased sales and marketing activities.

### **Amortization**

Amortization increased to \$147,677 during the year ended December 31, 2003 from the \$127,461 amount for the year ended December 31, 2002.

### **Interest on Convertible Debentures**

Interest on convertible debentures increased to \$235,188 during the year ended December 31, 2003 from \$91,677 during the year ended December 31, 2002 as a result of additional convertible debt issued during 2003.

### **Net Loss**

Kaboose incurred a net loss for the year ended December 31, 2003 of \$968,592 compared to a net loss of \$1,164,454 for year ended December 31, 2002.

## Liquidity and Capital Resources

### Liquidity

At December 31, 2003, Kaboose had cash reserves of \$40,380 compared to \$76,133 as at December 31, 2002.

The following table identifies the Contractual Obligations of Kaboose as at December 31, 2003:

	Total	Less Than 1 year	1 to 3 years	4-5 years	After 5 Years
Long Term Note Payable	\$-	\$-	\$-	\$-	\$-
Convertible Debentures	\$2,012,310 <sup>(1)</sup>	\$-	\$576,413	\$1,435,897	\$-
Operating Leases	\$-	\$-	\$-	\$-	\$-
Total Contractual Obligations	\$2,012,310	\$-	\$576,413	\$1,435,897	\$-

**Note:**

(1) Converted to Class A Preferred Shares on June 22, 2004.

At December 31, 2003 working capital totalled \$201,726 compared to \$282,864 at December 31, 2002. The current ratio at December 31, 2003 decreased to 2.3:1 from the 16:1 ratio as at December 31, 2002.

As at December 31, 2003, Kaboose's working capital was sufficient to meet Kaboose's current requirements.

Accounts receivable increased 137.6% from \$116,070 as at December 31, 2002 to \$275,758 as at December 31, 2003. Accounts payable increased 767% from \$18,553 at December 31, 2002 to \$160,841 as at December 31, 2003. The increases in these accounts are attributed to larger amounts of working capital required to support higher sales volumes.

Long-term note payable and convertible debentures (current and long-term portion) increased from \$1,315,082 at December 31, 2002 to \$2,012,310 at December 31, 2003. The increase in 2003 was attributed to additional convertible debentures issued.

Total assets decreased slightly to \$566,751 at December 31, 2003 from \$636,615 at December 31, 2002.

Cash generated (used) in operating activities decreased to (\$319,260) for year ended December 31, 2003 compared to (734,065) for the year ended December 31, 2002.

The major source of cash in 2003 was provided through the issue of common shares in the amount of \$3,690 and convertible debentures in the amount of \$296,480.

The major source of cash in 2002 was provided through the issue of convertible debentures in the amount of \$1,000,000.

The major use of cash during 2003 was the purchase of property, plant, equipment, websites and trademarks.

The major use of cash during 2002 was repayment of shareholders' loans in the amount of \$26,000, the purchase of property, plant and equipment in the amount of \$99,040, and the purchase of websites and trademarks in the amount of \$90,060.

### *Capital Resources*

Kaboose is not committed to any significant capital expenditures at present other than in the ordinary course of business at the end of 2003.

### **Share Capital**

As of December 31, 2003 there were 1,234,109 (2002 – 1,111,109) common shares issued and outstanding, 123,333 (2002 – 123,333) warrants outstanding at an exercise price of \$0.66 (2002 - \$0.75), and 685,833 (2002 – 44,000) stock options outstanding at an exercise price of \$0.66 (2002 - \$0.01).

On June 4, 2004 Kaboose completed a three for one reverse split of Kaboose's common shares. All share and per share figures have been presented to reflect this change.

### **Related Party Transactions**

- (a) Rent and management fees of \$96,080 (2002 - \$48,000) paid to a corporation of which a shareholder of Kaboose is a director.
- (b) Included in salaries, benefits and consulting fees are salaries of \$203,000 (2002 - \$138,702) paid or payable to certain shareholders.
- (c) Included in accounts payable at year end are expenses payable to a shareholder in the amount of \$59,025 (2002 - \$8,212).

These related party transactions were in the normal course of operations and are recorded at the exchange amount agreed to by the related parties.

### **Subsequent Events**

Effective January 1, 2005, a newly formed wholly-owned US subsidiary of Kaboose purchased all material assets of BIAB. Under the terms of the arm's-length all-cash deal, Kaboose purchased BIAB's name, intellectual property, domain names, furniture and equipment, durable goods, office supplies and all other assets. The purchase price was US\$225,000, an assumption of certain liabilities which would not exceed US\$415,000 plus additional liabilities assumed in the amount of US\$17,836. The maximum potential consideration for this purchase is US\$657,836 and, apart from the assumption of the noted liabilities, there are no on-going material obligations in respect of this acquisition affecting Kaboose. BIAB generated 2004 revenue of approximately CDN\$1,600,000.

### **Management Discussion and Analysis for Six Months ended June 30, 2005 compared to June 30, 2004**

The following sets out an interim MD&A of financial condition and results of operations for the six months ended June 30, 2005 and June 30, 2004. All financial information is presented in Canadian Dollars. Financial statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The following should be read in conjunction with annual financial statements and the accompanying notes for the year ended December 31, 2004.

## Results of Operation

### Revenue

	2005	2004	% Change
Revenues	\$2,333,181	\$1,003,221	+132.6%

Kaboose recorded strong sales growth in 2005 as total sales revenue increased by 132.6% over 2004.

The increase is primarily attributed to increased organic revenue as well as the acquisition of BIAB.

### Cost of Sales

Cost of Sales in the amount of \$423,099 was recorded in 2005 (2004 - \$Nil) as a result of the BIAB acquisition.

### Expenses

The following are the major operating expenses of Kaboose:

Selling, Operating and Administrative Expenses	2005	2004	% Change
Salaries, benefits and consulting fees	\$1,462,350	\$502,476	+191.0%
Commissions and advertising serving fees	\$546,263	\$415,812	+31.4%
Hosting, internet and server maintenance	\$148,524	\$220,692	-32.7%
Advertising and promotion	\$272,250	\$67,881	+301.1%
Professional fees	\$192,410	\$83,515	+130.4%
Rent and management fees	\$115,162	\$55,556	+107.3%
Automobile and travel	\$97,197	\$31,114	+212.4%

*Salaries, wages, benefits and consulting fees* – The increase in 2005 was attributed primarily to the expansion of Kaboose’s work force to support increasing sales. Increases were seen in each of the management, development, sales and programming areas. In addition, BIAB added \$206,690 in expenses. The salaries, wages, benefits and consulting fees as a percentage of sales revenue came in at 62.7% in 2005 compared to 50.1% in 2004.

*Commissions and advertising serving fees* – The increase in 2005 was directly attributed to a significant increase in revenues.

*Hosting, internet and server maintenance* – The decrease of 32.7% was attributed to better rates negotiated with Kaboose’s hosting company provider in 2005.

*Advertising and promotion* – Advertising and promotion activities were increased to help drive sales revenue growth in 2005. As a percentage of sales, advertising and promotion was 11.7% in 2005 compared to 6.8% in 2004.

*Professional fees* – The increase in 2005 was attributed to the addition of BIAB added \$64,448 in expenses for the six months ended June 30, 2005.

*Rent and management fees* – The increase in 2005 was attributed primarily to the addition of BIAB which added \$33,035 in rent expense. In addition, there was further office space expansion at Kaboose’s head office to accommodate the work force increase.

*Automobile and travel* – The increase in 2004 was attributed to the sales force expansion. As a percentage of sales, automobile and travel expense was 4.2% in 2005 compared to 3.1% in 2004.

### **Amortization**

Amortization increased to \$183,053 during the six months ended June 30, 2005 from the \$54,863 amount for the six months ended June 30, 2004. The increase is attributed primarily to the amortization of development costs effective January 1, 2005 in the amount of \$43,596 and amortization arising from significant purchases of computer software in the amount of \$53,372 (June 30, 2004 - \$1,410).

### **Interest on Class B Preferred Shares**

Interest on Class B Preferred Shares for the six months ended June 30, 2005 was \$206,576 (June 30, 2004- \$Nil). These shares were all issued on June 22, 2004, adjusted on July 1, 2004, so there was no expense during the six months ended June 30, 2004.

### **Interest on Convertible Debentures**

Interest on convertible debentures decreased to nil during the six months ended June 30, 2005 from \$128,308 during the six months ended June 30, 2004. The decrease in the expense in 2005 was attributed to the conversion of the debentures to Class A Preferred Shares during the 2004 period.

### **Net Loss**

Kaboose incurred a net loss for the six months ended June 30, 2005 of \$1,601,250 compared to a net loss of \$576,693 for six months ended June 30, 2004.

### **Liquidity and Capital Resources**

#### *Liquidity*

At June 30, 2005, Kaboose had cash reserves of \$4,512,261 compared to \$1,584,958 as at December 31, 2004. The increase in cash in 2005 was attributed primarily to a major financing in the 2005 period.

The following table identifies the Contractual Obligations of Kaboose as at June 30, 2005:

	<b>Total</b>	<b>Less Than 1 year</b>	<b>1 to 3 years</b>	<b>4-5 years</b>	<b>After 5 Years</b>
Long Term Note Payable	\$196,567	\$87,537	\$109,030	\$-	\$-
Class B Preferred Shares	\$2,671,529 <sup>(1)</sup>	\$-	\$2,671,529	\$-	\$-
Operating Leases	\$395,559	\$138,449	\$257,110	\$-	\$-
Total Contractual Obligations	\$3,266,255	\$225,986	\$3,040,269	\$-	\$-

**Note:**

(1) Convertible into Kaboose Shares at any time up to May 15, 2008.



At June 30, 2005 working capital totalled \$4,573,887 compared to \$2,089,056 at December 31, 2004. The current ratio at June 30, 2005 increased to 6.3:1 from the 5.5:1 ratio as at December 31, 2004.

As at June 30, 2005, Kaboose's working capital was sufficient to meet Kaboose's current requirements.

Accounts receivable decreased 20.6% from \$895,737 as at December 31, 2004 to \$711,086 as at June 30, 2005. The decrease resulted from more timely cash collections on receivables. Inventory was \$214,512 at June 30, 2005 (December 31, 2004 - \$Nil) as a result of the BIAB acquisition. Accounts payable increased 120.9% from \$272,416 at December 31, 2004 to \$671,538 as at June 30, 2005. The increase is attributed to larger amounts required to support higher sales volumes and the addition of BIAB which added \$156,541 to accounts payable. Deferred revenue decreased slightly to \$60,457 at June 30, 2005 from \$76,766 as at December 31, 2004.

Long-term note payable and convertible debentures (current and long-term portion) increased slightly from \$2,780,617 at December 31, 2004 to \$2,868,096 at June 30, 2005.

Total assets increased to \$6,797,860 at June 30, 2005 from \$3,328,019 at December 31, 2004. This was attributed primarily to the increases in cash from a major financing. In addition, BIAB added \$958,846 to total assets at June 30, 2005.

Cash generated (used) in operating activities decreased to (\$1,107,411) for six months ended June 30, 2005 compared to (\$484,348) for the six months ended June 30, 2004. This was attributed primarily to a higher net loss in 2005 of \$1,601,250 (2004 - \$576,693).

The major source of cash in 2005 was provided through the issue of Special Warrants in the amount of \$4,612,714 (net proceeds of \$4,408,107).

The major source of cash in 2004 was provided through the issue of Class B Preferred Shares in the amount of \$3,350,001 and convertible debentures in the amount of \$57,417.

The major use of cash during 2005 was the business acquisition of BIAB in the amount of \$271,080, the purchase of property, plant and equipment in the amount of \$64,004, the purchase of websites and trademarks in the amount of \$15,445 and the repayment of notes payable in the amount of \$22,864.

The major use of cash during 2004 was the purchase of property, plant and equipment in the amount of \$80,304.

### *Capital Resources*

Kaboose completed the acquisition of BIAB in 2005 and is not committed to any other significant acquisitions or capital expenditures at present other than in the ordinary course of business.

### **Share Capital**

As of June 30, 2005 issued and outstanding capital stock and other equity were as follows:

- 1,777,443 common shares (December 31, 2004 – 1,777,443 common shares);
- 4,376,489 Class A Preferred Shares (December 31, 2004 – 4,376,489 Class A Preferred Shares);
- 4,466,670 Class B Preferred Shares (December 31, 2004 – 4,466,670 Class B Preferred Shares);

- 3,548,241 Special Warrants (December 31, 2004 – Nil Special Warrants);
- 100,097 Kaboose Broker Warrants (December 31, 2004 - Nil Kaboose Broker Warrants);
- 123,333 Kaboose Warrants outstanding at an exercise price of \$0.66 (December 31, 2004 – 123,333 Kaboose Warrants outstanding at an exercise price of \$0.66); and
- 1,473,333 Kaboose Options outstanding at exercise prices ranging from \$0.66 to \$1.30 (December 31, 2004 – 1,277,333 Kaboose Options outstanding at exercise prices ranging from \$0.66 to \$0.90).

On June 4, 2004 Kaboose completed a three for one reverse split of Kaboose’s common shares. All share and per share figures have been presented to reflect this change.

### **Related Party Transactions**

- (a) Rent and management fees of \$55,556 (June 30, 2004 - \$55,556) paid to a corporation of which a shareholder of Kaboose is a director.
- (b) Included in salaries, benefits and consulting fees are salaries of \$259,919 (June 30, 2004 - \$200,534) paid or payable to certain shareholders.
- (c) Included in accounts payable at year end are expenses payable to a shareholder in the amount of \$46,961 (December 31, 2004 - \$15,539).

These related party transactions were in the normal course of operations and are recorded at the exchange amount agreed to by the related parties.

### **Subsequent Events**

Subsequent to the six month period ended June 30, 2005, Kaboose signed a letter of intent with the Corporation to become a public company. The Corporation is currently a Capital Pool Company traded on the TSX Venture Exchange and on closing of this transaction, existing Kaboose shareholders will own 95% of the merged company, which will be called Kaboose Inc. Existing Kaboose shareholder will receive one share of the new company for every one share currently owned.

In addition, Kaboose granted an additional 415,387 Kaboose Options to its directors, officers, consultants and employees at exercise prices ranging from \$1.75 to \$2.17.

## **DESCRIPTION OF SHARE CAPITAL OF KABOOSE**

### **Common Shares**

Kaboose is authorized to issue an unlimited number of common shares (previously defined as “**Kaboose Shares**”). On June 4, 2004, Kaboose completed a three for one reverse split of the Kaboose Shares and as at June 30, 2005, there are 1,777,443 Kaboose Shares issued and outstanding. The holders of Kaboose Shares will be entitled to receive dividends as may be declared from time to time by the board of directors of Kaboose. Pursuant to the Kaboose Shareholders Meeting, the shareholders will consider for approval the Kaboose Stock Split.

### **Class A Preferred Shares**

The Class A Preferred Shares are voting, bear no dividends and are convertible into Kaboose Shares at any time by the holder on the basis of one Kaboose Share for every one Class A Preferred Share held. After May 15, 2008, the Class A Preferred Shares are convertible at Kaboose's option on the basis of one common share for every one Class A Preferred Share held.

### **Class B Preferred Shares**

The Class B Preferred Shares have voting rights on the basis of such number of votes per Class B Preferred Share as equal to the number of Kaboose Shares into which each Class B Preferred Share is convertible. The Class B Preferred Shares have a dividend rate calculated as the lower of 8% per annum and Prime + 2.75% per annum. The dividends are payable on a semi-annual basis. The Class B Preferred Shares are redeemable at the option of the holders on May 15, 2008 at the paid up amount plus any accrued and unpaid dividends. Holders of the Class B Preferred Shares have the right to exchange their shares for Kaboose Shares at the rate of one common share for every one Class B Preferred Share at any time through to May 15, 2008. After May 15, 2008, Kaboose has the option of converting the Class B Preferred Shares into Kaboose Shares at the rate of one common share for every one Class B Preferred Share. The Class B Preferred Shares have been classified in component parts as both a liability and equity.

### **Special Warrants**

Each Special Warrant entitles the holder to receive, without payment of any further consideration, one Kaboose Share at any time up to the date which is nine-months from the closing date and upon the completion of a going-public transaction. In the event that a going-public transaction occurs after the day which is nine-months from May 18, 2005 but prior to March 31, 2006, each Special Warrant will entitle the holder to 1.10 Kaboose Share. In the event that a going-public transaction does not occur prior to March 31, 2006, each Special Warrant shall entitle the holder to 1.18 Kaboose Share.

### **Subscription Receipts**

Subscription Receipts are exchangeable for one Kaboose Share. The Subscription Receipts will be automatically exchanged for Kaboose Shares at the Escrow Release Time (defined below). Upon the completion of the Amalgamation, Amalco Shares will be issued in exchange for the Kaboose Shares underlying the Subscription Receipts. The gross proceeds of the Kaboose Private Placement shall be deposited in escrow on closing of the Kaboose Private Placement and will be released from escrow to Kaboose immediately prior to the completion of the Amalgamation (the "**Escrow Release Time**") upon all conditions precedent to the completion of the Amalgamation having been satisfied or waived to the satisfaction of the Agents, acting reasonably (the "**Escrow Release Conditions**"). In the event that the Escrow Release Conditions are not satisfied within 120-days of the Kaboose Private Placement closing date, the escrowed funds together with accrued interest earned thereon will be returned to the holders of the Subscription Receipts and the Subscription Receipts will be cancelled.

### **Shareholders Agreements and Voting Trust Agreements**

The holders of the common shares of Kaboose, Class A Preferred Shares and Class B Preferred Shares entered into a shareholders agreement dated June 22, 2004 with Kaboose governing the respective rights, privileges, interests and obligations in and with respect to Kaboose. The terms of this shareholders agreement include, without limitation, the appointment of directors, meetings of shareholders, further issuances of securities of Kaboose, rights of first refusal from any shareholder intending on disposing of

their securities of Kaboose, and pre-emptive rights to acquire additional securities of Kaboose. It is intended that this shareholders agreement will be terminated pursuant to its terms in connection with the completion of the Proposed Qualifying Transaction and will have no further force and effect.

In addition, the holders of the Special Warrants all entered into security agreements with Kaboose governing certain rights, privileges, interests and obligations in and with respect to Kaboose. The terms of these security agreements include, without limitation, the delivery of financial statements, pro rata purchase rights and tag along rights. It is intended that these security agreements will be terminated pursuant to their terms in connection with the completion of the Proposed Qualifying Transaction and will have no further force and effect.

In addition, Jason De Zwirek and Eric Yuzpe entered into a voting trust agreement dated February 8, 2002. Kaboose and the Corporation have been advised that this agreement will terminate with the completion of the Proposed Qualifying Transaction and will have no further force and effect.

### **CONSOLIDATED CAPITALIZATION OF KABOOSE**

The following table sets forth the consolidated capitalization of Kaboose as at the date of the most recent balance sheet contained in the Circular and as at the date hereof:

<b>Designation of Security</b>	<b>Amount Authorized or to be Authorized</b>	<b>Amount Outstanding as of June 30, 2005</b>	<b>Amount Outstanding as of the date hereof</b>
Common Shares <sup>(1)</sup>	Unlimited	1,777,443	1,777,443
Class A Preferred Shares <sup>(2)</sup>	Unlimited	4,376,489	4,376,489
Class B Preferred Shares <sup>(3)</sup>	Unlimited	4,466,670	4,466,670
Special Warrants <sup>(4)</sup>	3,846,153	3,548,241	3,548,241
Stock Options	2,285,953	1,473,333	1,888,720
Kaboose Warrants <sup>(5)</sup>	Unlimited	123,333	123,333
Kaboose Broker Warrants <sup>(6)</sup>	Unlimited	100,097	100,097

**Notes:**

- (1) The Kaboose Shareholders Meeting is currently scheduled for October 26, 2005 at which time Kaboose Shareholders will consider, among other things, the Kaboose Stock Split such that the common shares of Kaboose will be split on a 1 old for 3.1 new basis. Accordingly, shareholders of Kaboose will receive 3.1 Kaboose Shares for every 1 common share of Kaboose held.
- (2) After May 15, 2008, the Class A Preferred Shares are convertible at Kaboose's option on the basis of one common share for every one Class A Preferred Share held.
- (3) After May 15, 2008, Kaboose has the option of converting the Class B Preferred Shares at the rate of one common share for every one Class B Preferred Share.
- (4) Each Special Warrant will entitle the holder to receive, without payment of any further consideration, one common share of Kaboose (3.1 Kaboose Shares for \$0.21 per Kaboose Share) at any time before February 18, 2006, 1.10 common shares on a pre stock split basis, if exercised after February 18, 2006 but before March 31, 2006 and 1.18 common shares on a pre stock split basis if exercised thereafter.
- (5) The Kaboose Warrants are exercisable on a one-to-one basis into common shares for \$0.66 per warrant (3.1 Kaboose Shares for \$0.21 per Kaboose Share), expiring on September 26, 2008.
- (6) The Kaboose Broker Warrants are exercisable on a one-to-one basis into common shares for \$1.30 per warrant (3.1 Kaboose Shares for \$0.42 per Kaboose Share), expiring on the earlier of May 18, 2007 and 12-months following going-public.

## PRIOR SALES OF SECURITIES OF KABOOSE

The following table sets forth the particulars of Kaboose Shares issued in the twelve months preceding the date of this Circular:

Date	Number and Class of Securities	Issue Price per Security	Total Issue Price	Nature of Consideration Received
May 18, 2005 <sup>(1)</sup>	3,548,241 Special Warrants	\$1.30	\$4,612,714	cash

**Note:**

- (1) Of the 3,548,241 Special Warrants sold, 826,923 were sold to non-arm's length parties.

On September 16, 2005 the Agent, the Corporation and Kaboose entered into an engagement letter whereby the Agent on its own behalf and on behalf of a syndicate of investment dealers acceptable to the parties (collectively, the “**Agents**”) agreed to act on behalf of Kaboose to offer for sale subscription receipts of Kaboose (the “**Subscription Receipts**”) for maximum proceeds of \$10,000,000 to Kaboose (the “**Kaboose Private Placement**”). The Kaboose Private Placement was contemplated in connection with completion of the Amalgamation.

The Subscription Receipts will be automatically exchanged for Kaboose Shares at the Escrow Release Time (defined below). Upon the completion of the Amalgamation, common shares of the Resulting Issuer will be issued in exchange of the Kaboose Shares underlying the Subscription Receipts. The gross proceeds of the Kaboose Private Placement shall be deposited in escrow on closing of the Kaboose Private Placement and will be released from escrow to Kaboose immediately prior to the completion of the Amalgamation (the “**Escrow Release Time**”) upon all conditions precedent to the completion of the Amalgamation having been satisfied or waived to the satisfaction of the Agents, acting reasonably (the “**Escrow Release Conditions**”). In the event that the Escrow Release Conditions are not satisfied within 120-days of the Kaboose Private Placement closing date, the escrowed funds together with accrued interest earned thereon will be returned to the holders of the Subscription Receipts and the Subscription Receipts will be cancelled.

## DIRECTORS, OFFICERS, 10% HOLDERS AND PROMOTERS OF KABOOSE

The following table sets forth the names, municipalities of residence and descriptions of the directors, senior officers, greater than 10% shareholders and promoters of Kaboose, and their positions and offices with Kaboose.

Name and Municipality of Residence	Principal Occupations for the Previous Five Years	Offices with Kaboose	Number of Kaboose Shares Owned or Controlled
Jason DeZwirek Toronto, Ontario	Founded Kaboose in 1999. Is also currently a director of CECO Environmental Corp. (NASDAQ:CECE) and API Electronics Group (OTC:AEGCF).	CEO, Director	19,607,837 <sup>(1)</sup>
Jonathan Graff Toronto, Ontario	Joined Kaboose as President in 2003. From 1998 to 2001, was Director of Business Development with Homestore.com (NASDAQ:HOMS). Mr. Graff also managed Homestore's Canadian national sales force from 2000 to 2001.	President, Director	335,832

<b>Name and Municipality of Residence</b>	<b>Principal Occupations for the Previous Five Years</b>	<b>Offices with Kaboose</b>	<b>Number of Kaboose Shares Owned or Controlled</b>
Eric Yuzpe, New York, New York	Mr. Yuzpe is one of the two founders of Kaboose Inc. and since May 2005, has been the President of Kaboose Services Inc, Kaboose's U.S. sales subsidiary. Mr. Yuzpe is a recognized authority on youth marketing and is a frequent speaker at industry events, as well as contributing articles to trade publications.	Director	2,506,322 <sup>(2)</sup>
Michael Winton Toronto, Ontario	Since 2005 the Vice President of The Equity Group and is President of Global Vending Corp. Prior was a lawyer in Toronto, Ontario.	Director	88,868
Jonathan Pollack Toronto, Ontario	From 2000 to 2005, President of The JMP Group.	CFO	Nil
Ray Benzinger Toronto, Ontario	President of Dundee Private Equity Management, the private equity arm of Dundee Wealth Management Inc., since May 2001.	Director	Nil

**Notes:**

- (1) The 19,607,838 Kaboose Shares noted as controlled by Jason DeZwirek include 2,825,821 Kaboose Shares and include 16,782,017 Kaboose Shares to be issued upon conversion of 961,382 Class A Preferred Shares held by him personally and also include, 3,118,838 Class A Preferred Shares and 1,333,334 Class B Preferred Shares owned by Green Diamond Oil Corp., a corporation of which Jason DeZwirek is an officer and director.
- (2) The 2,506,332 Kaboose Shares noted as owned or controlled by Eric Yuzpe consist of 1,587,888 Kaboose Shares and 918,434 Kaboose Shares to be issued upon conversion of 296,269 Class A Preferred Shares.

**MANAGEMENT AND KEY PERSONNEL OF KABOOSE**

Jason DeZwirek, the Chairman of the Board and Chief Executive Officer of Kaboose, as well as Jonathan Graff, a director and the President of Kaboose, are considered by management as key personnel to the operations of the business, the loss of any one of whom could have an adverse effect on its operations and business prospects of Kaboose.

**COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS OF KABOOSE**

**Summary Compensation Table**

The following table sets forth all annual and long term compensation for services in all capacities to Kaboose in the past financial year in respect of individual(s) who were acting in a capacity similar to a chief executive officer, president and chief financial officer (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE								
Name and Principal Position	Year Ended December 31	Annual Compensation			Long-Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation	Awards		Payouts	All Other Compensation (\$)
					Securities Under Options/SAR <sup>(1)</sup> Granted (#)	Shares or Units Subject to Resale Restrictions (\$)	LTIP <sup>(2)</sup> Payouts (\$)	
Jason DeZwirek CEO, Director	2004	\$128,654	Nil	Nil	200,000	Nil	Nil	Nil
Jonathan Graff President, Director	2004	\$151,539	Nil	Nil	300,000	Nil	Nil	Nil

**Notes:**

- (1) "SAR" or "Stock appreciation right" means a right, granted by Kaboose or its subsidiaries as compensation for employment services or office to receive cash or an issue or transfer of securities based wholly or in part on changes in the trading price of publicly traded securities of Kaboose.
- (2) "LTIP" or "long term incentive plan" means a plan providing compensation intended to motivate performance over a period greater than one financial year. LTIP's do not include option or SAR plans or plans for compensation through shares or units that are subject to restrictions on resale.

**Stock Options - Directors and Officers**

Optionee	Position	Number of Kaboose Shares Reserved Under Option <sup>(1)</sup>	Exercise Price <sup>(1)</sup>	Grant Date	Expiry Date
Jonathan Graff	Director, Officer	383,333	\$0.66	August 1, 2003	August 1, 2010
		300,000	\$0.75	July 1, 2004	July 1, 2009
		100,000	\$1.75	July 16, 2005	July 16, 2010
Jason DeZwirek	Director, Officer	200,000	\$0.75	July 1, 2004	July 1, 2009
		100,000	\$1.75	July 16, 2005	July 16, 2010
Eric Yuzpe	Officer	3,000	\$0.75	July 1, 2004	May 31, 2009
Michael Winton	Director	5,000	\$1.00	January 1, 2005	December 31, 2009
Jonathan Pollack	Officer	100,000	\$1.20	April 1, 2005	March 31, 2010
		50,000	\$1.75	July 16, 2005	July 16, 2010

**Stock Options - Consultants**

Number of Kaboose Shares Reserved Under Option <sup>(1)</sup>	Exercise Price <sup>(1)</sup>	Grant Date	Expiry Date
302,500	\$0.66	August 1, 2003	August 1, 2010
50,000	\$0.85	September 1, 2004	September 1, 2009
60,000	\$1.20	April 1, 2005	March 31, 2010
60,000	\$1.75	July 16, 2005	July 16, 2010

## Stock Options - Employees

Number of Kaboose Shares Reserved Under Option <sup>(1)</sup>	Exercise Price <sup>(1)</sup>	Grant Date	Expiry Date
26,500	\$0.75	July 1, 2004	May 31, 2009
3,000	\$0.85	September 1, 2004	August 31, 2009
4,000	\$0.90	October 1, 2004	September 30, 2009
2,000	\$1.00	January 1, 2005	December 31, 2009
9,000	\$1.20	April 1, 2005	March 31, 2010
25,000	\$1.30	May 1, 2005	May 1, 2010
57,000	\$1.75	July 16, 2005	July 16, 2010
48,387	\$2.17	September 20, 2005	September 20, 2010

**Note:**

- (1) In the event the Kaboose Stock Split is approved at the Kaboose Shareholders Meeting, each Kaboose Option disclosed above must be multiplied by 3.1 and each exercise price must be divided by 3.1.

## Long-Term Incentive Plans

Other than its incentive stock option plan (*See "Part IV - Information Concerning Resulting Issuer - Option Plan"*) Kaboose does not have a long-term incentive plan.

## Stock Appreciation Rights ("SAR") and Restricted Shares

Kaboose does not have any SARs or restricted shares outstanding.

## Pension and Retirement Plans and Payments Made Upon Termination of Employment

Kaboose does not have a pension plan. Kaboose has made aggregate severance payments of \$16,000 to a total of five terminated employees in the last three fiscal years.

## Employment and Management Contracts

Each employee of Kaboose enters into an employment agreement with Kaboose setting out each parties respective duties and obligations. Included within such employment agreements are provisions with respect to trade secrets and intellectual property protection.

## Management Contracts of Kaboose

Jonathan Pollack, the Chief Financial Officer of Kaboose, is employed pursuant to a consulting arrangement with Kaboose for an annual salary of \$130,000, expiring December 31, 2005, at which time the arrangement will be renewed or expire at the option of both parties.

## Non-Arm's Length Party Transactions

Kaboose paid rent on its Toronto premises in fiscal 2004 of \$111,112 to Green Diamond Oil Corp., a corporation of which Jason DeZwirek is an officer and director.



## **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS OF KABOOSE**

In connection with Kaboose's purchase of CampSearch from Kyle Waxman, and his subsequent consulting arrangement with Kaboose, Mr. Waxman is currently a consultant of Kaboose and is owed \$184,237. The repayment of this amount is dependent on the success of Kaboose's CampSearch property. No other director, officer, consultant or employee is indebted to, or is a creditor of, Kaboose or any of its subsidiaries.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATTERS TO BE ACTED UPON AND MATERIAL TRANSACTIONS**

Other than as disclosed herein, and as set forth below, management of Kaboose is not aware of any material interest in any matter to be acted upon or any material transaction, direct or indirect, of any director or senior officer of Kaboose, or of any person beneficially owning, directly or indirectly, more than 10% of the Kaboose Shares issued and outstanding or any associate or affiliate thereof, other than the interest which any such person may have as a shareholder in Kaboose and, on completion of the Amalgamation, as a security holder of the Resulting Issuer.

## **MATERIAL CONTRACTS OF KABOOSE**

The following are the agreements, understandings and contracts which have been entered into by Kaboose that are presently considered by management to be material:

1. Qualifying Transaction Agreement dated October 17, 2005 among the Corporation, Kaboose and Jason DeZwirek;
2. Special Warrant Indenture dated May 18, 2005, between Kaboose and Equity; and
3. Engagement Letter dated September 16, 2005 among Kaboose, the Corporation and the Agent.

Copies of these agreements are available for inspection at the offices of counsel to Kaboose, WeirFoulds LLP, 130 King Street West, Suite 1600, Toronto, Ontario, M5X 1J5, during ordinary business hours.

Immediately preceding the Amalgamation, the Corporation will enter into the Amalgamation Agreement with Kaboose.

An escrow agreement will be entered into among the Corporation, various former holders of Kaboose Shares and Equity, as escrow agent, upon closing of the Amalgamation.

## **PROMOTERS OF KABOOSE**

Jason DeZwirek may be considered the Promoter of Kaboose as he took the initiative in either founding, organizing or substantially reorganizing the business of Kaboose and its subsidiaries.

## **AUDITORS, REGISTRAR AND TRANSFER AGENT OF KABOOSE**

The auditors of Kaboose are Harendorf Lebane Moss LLP, Chartered Accountants and they have been the auditors of Kaboose since 2001. Kaboose acts as its own registrar and transfer agent. Following the Amalgamation it is proposed that Computershare, with offices in Toronto, Ontario, Canada will continue as the registrar and transfer agent of the Resulting Issuer and Davidson & Company LLP, Chartered Accountants, will continue to as auditors of the Resulting Issuer.

### **DIVIDEND RECORD AND POLICY OF KABOOSE**

No dividends have been paid on any shares of Kaboose since the date of its incorporation. It is not contemplated that dividends will be paid in the foreseeable future.

### **LEGAL PROCEEDINGS INVOLVING KABOOSE**

Management of Kaboose is not aware of any legal proceedings, contemplated or actual, involving Kaboose which could materially affect Kaboose.

### **BOARD APPROVAL**

The contents as related to Kaboose and the sending of this Circular have been approved by the board of directors of Kaboose.

**PART VI**  
**INFORMATION CONCERNING THE RESULTING ISSUER**

**NAME AND INCORPORATION**

The Resulting Issuer will be the entity formed by the amalgamation of the Corporation and Kaboose under the CBCA, namely Amalco. It is expected that the name of Amalco will be “Kaboose Inc.”. Upon completion of the Amalgamation, it is anticipated that the head office of Amalco will be 1400 - 505 University Avenue, Toronto, Ontario, Canada, M5G 1X3 and that the registered and records office of Amalco will be 1600 – 130 King Street West, Toronto, Ontario, M5X 1J5.

**INTERCORPORATE RELATIONSHIPS**

Upon completion of the Amalgamation, Amalco will have the following subsidiaries: Amalco will own 100% of the issued and outstanding shares of Kaboose Holdings LLC, a Delaware corporation, which in turn owns 100% of the issued and outstanding shares of both Kaboose Com Inc. (formerly, Birthday in a Box, Inc.) and Kaboose Services Inc., both Delaware corporations.

**NARRATIVE DESCRIPTION OF THE BUSINESS OF THE RESULTING ISSUER**

Amalco will carry on the business of Kaboose as described in Part V of this Circular under the heading “*Information Regarding Kaboose Inc. - Narrative Description of the Business*”. The property, liabilities and obligations of the Corporation and Kaboose will continue to be the property, liabilities and obligations of Amalco upon completion of the Amalgamation.

The stated business objectives and milestones of Amalco will be the business objectives and milestones of Kaboose. See Part V of this Circular under the heading “*Information Regarding Kaboose Inc. - Narrative Description of the Business*”.

**DESCRIPTION OF THE SHARE CAPITAL OF AMALCO**

**Common Shares**

Amalco will be authorized to issue an unlimited number of Amalco Shares. The holders of Amalco Shares will be entitled to dividends, if, as and when declared by the board of directors, to one vote per share at the meetings of the shareholders of Amalco and, upon liquidation, to share equally in such assets of Amalco as are distributable to the holders of Amalco Shares.

**Preferred Shares**

Amalco will be authorized to issue an unlimited number of preferred shares (the “**Preferred Shares**”). The Preferred Shares may be issued from time to time in one or more series, each consisting of a number of Preferred Shares as determined by the board of directors of Amalco which also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares. The Preferred Shares of each series, shall, with respect to payment of dividends and distribution of assets in the event of voluntary or involuntary liquidation, dissolution or winding-up of Amalco or any other distribution of the assets of Amalco among its shareholders for the purpose of winding-up its affairs, rank on a parity with the Preferred Shares of every other series and shall be entitled to preference over the Amalco Shares and the shares of any other class ranking junior to the Preferred Shares.

## PRO FORMA CONSOLIDATED CAPITALIZATION OF THE RESULTING ISSUER

The following table sets forth the consolidated capitalization of Amalco as at the dates indicated:

Designation of Security	Amount Authorized or to be Authorized	Amount Outstanding After Giving Effect to the Amalgamation
Amalco Shares	Unlimited	\$19,644,487 (58,643,413 Amalco Shares)
Preferred Shares	Unlimited	Nil
Long-Term Debt <sup>(1)</sup>	N/A	\$109,030

**Note:**

- (1) Consists of a note payable as disclosed in the Kaboose Financial Statements.

## FULLY DILUTED SHARE CAPITAL OF THE RESULTING ISSUER

The following table describes and summarizes the fully-diluted share capital of Amalco:

	Number of Amalco Shares	Percentage
Amalco Shares issued and outstanding after completion of the Amalgamation	58,643,413	88.4%
Amalco Shares Reserved for Issuance for Amalco Options <sup>(1)</sup>	6,005,032	9.1%
Amalco Shares Reserved for Issuance for Agent's Options <sup>(2)</sup>	100,000	0.2%
Amalco Shares Reserved for Issuance for Amalco Compensation Options <sup>(3)</sup>	868,000	1.3%
Amalco Shares Reserved for Issuance for Amalco Warrants <sup>(4)</sup>	382,332	0.6%
Amalco Shares Reserved for Issuance for Amalco Broker Warrants <sup>(5)</sup>	310,301	0.4 %
<b>Total</b>	<b>66,309,078</b>	<b>100.0%</b>

**Notes:**

- (1) For terms and conditions see "*Stock Options - Options to Acquire Amalco Shares upon Completion of the Amalgamation*".
- (2) For terms and conditions see "*Glossary - IS Options*". Each Amalco Agent's Option entitles the holder thereof to acquire an additional Amalco Share at an exercise price of \$0.25 per Amalco Share expiring on July 13, 2007.
- (3) Pursuant to the terms of the Kaboose Private Placement between Kaboose, the Corporation and the Agent, the Agent shall be entitled to receive compensation options totalling up to 7% of the number of Subscription Receipts issued pursuant to the Kaboose Private Placement and shall be entitled to exercise the compensation options for a period of 1 year from the completion of the Kaboose Private Placement at the same price as the offering price of Kaboose Private Placement.
- (4) For terms and conditions see "*Consolidated Capitalization of Kaboose - Notes*". Each Amalco Warrant entitles the holder thereof to acquire an additional Amalco Share at an exercise price of \$0.21 per Amalco Share expiring on September 26, 2008.
- (5) For terms and conditions see "*Consolidated Capitalization of Kaboose - Notes*". Each Amalco Broker Warrant entitles the holder thereof to acquire an additional Amalco Share at an exercise price of \$0.42 per Amalco Share expiring on the earlier of May 18, 2007 or the closing date of the Amalgamation.

## AVAILABLE FUNDS UPON COMPLETION OF THE AMALGAMATION

The following table sets forth the estimated, pro-forma consolidated working capital and amounts and sources of other funds of Amalco as at June 30, 2005:

Source of Funds	Amount
Funds available from the Corporation	\$356,823
Funds available from Kaboose	\$13,573,887 <sup>(1)</sup>
<b>Total</b>	<b>\$13,930,710</b>

**Note:**

- (1) Assuming Kaboose raises \$10,000,000 gross proceeds upon completion of the Kaboose Private Placement with commissions and expenses of approximately \$1,000,000.

## PRINCIPAL PURPOSES FOR USE OF AVAILABLE FUNDS

The following table sets forth the proposed use of the available funds by Amalco upon completion of the Amalgamation:

Principal Uses of Available Funds (Eighteen Months Ending December 31, 2006)	Amount
General Working Capital	\$1,200,000
Net Operating Loss	\$1,400,000
Repayment of Note Payable	\$185,000
Capital Expenditures	\$400,000
Excess Cash Available	\$10,745,710
<b>Total Uses of Funds</b>	<b>\$13,930,710</b>

Amalco will spend the funds available to it upon completion of the Amalgamation to further Kaboose's stated business objectives and create a capital availability for potential acquisitions in the on-line children and family market. There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for Amalco to achieve its stated business objectives.

Upon completion of the Amalgamation, Amalco is expected to have sufficient cash available to pay its operating and administration costs for in excess of 12 months.

## ADMINISTRATION COSTS

Upon completion of the Amalgamation, Amalco's working capital available to fund ongoing operations will be sufficient to meet its administration costs for at least 12 months. In order for Amalco to achieve its stated business objectives, it is expected that Amalco will incur estimated aggregate monthly administration costs of \$150,000 and total administration costs of \$1,800,000.

## PRINCIPAL SECURITYHOLDERS OF THE RESULTING ISSUER

The following table lists all Persons who will, directly or indirectly, own or direct control or direction over more than 10% of the Amalco Shares upon completion of the Amalgamation:

<b>Name and Municipality of Residence</b>	<b>Type of Ownership</b>	<b>Number of Amalco Shares</b>	<b>Percentage<sup>(1)</sup></b>
Jason DeZwirek Toronto, Ontario	Direct	5,806,105	9.9%
Green Diamond Oil Corp. <sup>(2)</sup> Toronto, Ontario	Direct	13,801,733	23.5%
Dynamic Venture Opportunities Fund Ltd. Toronto, Ontario	Direct	10,055,129	17.1%

**Note:**

- (1) Assumes 58,643,413 Amalco Shares issued and outstanding.
- (2) Green Diamond Oil Corp. is a corporation of which Jason DeZwirek is an officer and director.

### **DIRECTORS, OFFICERS AND PROMOTERS**

The following table sets forth the name of each of the persons proposed as a director or officer of Amalco, all positions and offices in Amalco to be held by him, their municipality of residence, their principal occupation at the present and during the preceding five years, the period during which he has served as a director or officer of the Corporation or Kaboose, and the number and percentage of Amalco Shares that the proposed director or officer will own, or over which control or direction will be exercised:

<b>Name, Expected Positions, and Municipality of Residence</b>	<b>Date Appointed a Director or Officer of Iron Springs or Kaboose</b>	<b>Principal Occupations for the Previous Five Years</b>	<b>Number and Percentage of Amalco Shares Held or Controlled Upon Completion of the Amalgamation<sup>(1)</sup></b>
<b>Jason DeZwirek</b> Chief Executive Officer and Director Toronto, Ontario	October 8, 1999	In 1999, Jason DeZwirek founded Kaboose of which he is currently the Chairman, Chief Executive Officer and a director. He is also currently a director of CECO Environmental Corp. (NASDAQ:CECE), an air pollution control company and API Electronics Group (OTCBB:AEGCF).	19,607,838 <sup>(2)</sup> (33.4%)
<b>Jonathan Graff</b> President and Director Toronto, Ontario	April 18, 2002	Jonathan Graff joined Kaboose as President in 2003. From 1998 to 2001, he was the Director of Business Development with Homestore.com (NASDAQ:HOMS). Jonathan Graff also managed Homestore's Canadian national sales force from 2000 to 2001.	335,832 (<1%)

Name, Expected Positions, and Municipality of Residence	Date Appointed a Director or Officer of Iron Springs or Kaboose	Principal Occupations for the Previous Five Years	Number and Percentage of Amalco Shares Held or Controlled Upon Completion of the Amalgamation <sup>(1)</sup>
<b>A. Murray Sinclair</b> Director Vancouver, British Columbia	March 15, 2005	Since June 30, 2003, Mr. Sinclair has been Managing Director of Quest Capital Corp. (formerly, Quest Investment Corp.). Quest Capital Corp. trades on the Toronto Stock Exchange (the "TSX") under the symbol QC. Quest Capital Corp. is a merchant bank that provides financial services to small and mid-cap companies operating primarily in North America. From July 2002 to June 2003, Mr. Sinclair was President and Director of Quest Investment Corp., a public company whose shares traded on the TSX.	40,000 (<1%)
<b>K. Peter Miller</b> Director West Vancouver, British Columbia	April 11, 2005	Mr. Miller is currently the Chief Financial Officer of Quest Management Corp., a management company that is wholly owned by Quest Capital Corp. From 1988 to 1997, he was the Treasurer of Quest Oil and Gas Inc. (formerly Quest Capital Corporation).	40,000 (<1%)
<b>Michael Winton</b> Director Toronto, Ontario	December 20, 1999	Michael Winton is currently the Vice President of The Equity Group and is President of Global Vending Corp., both private companies located in Dallas, Texas. Prior Mr. Winton practiced as a lawyer in Toronto, Ontario.	88,868 (<1%)
<b>Jonathan Pollack</b> Chief Financial Officer Toronto, Ontario	April 1, 2005	Since 2000, Jonathan Pollack has been President of The JMP Group, a strategic and financial advisory firm to numerous private and public companies based in Toronto, Ontario.	Nil

**Notes:**

- (1) Assumes 58,643,413 Amalco Shares issued and outstanding.
- (2) Of the 19,607,838 Amalco Shares noted as held or controlled by Jason DeZwirek, 13,801,733 will be owned by Green Diamond Oil Corp., a corporation of which Jason DeZwirek is an officer and director.

Pursuant to the provisions of the CBCA the Resulting Issuer is required to have an Audit Committee. The general function of the Audit Committee is to review the overall audit plan and the issuer's system of internal controls, to review the results of the external audit, and to resolve any potential dispute with the issuer's auditor. It is anticipated that upon completion of the Amalgamation, the Audit Committee will consist of Messrs. DeZwirek, Winton and Miller. The Audit Committee of the Corporation currently consists of A. Murray Sinclair, K. Peter Miller and Stewart Robertson.

**MANAGEMENT OF THE RESULTING ISSUER**

If all of the matters placed before the Meeting are approved, and the Amalgamation is completed, the following individuals are anticipated to be the management and key personnel of Amalco:

***Jason DeZwirek – Chief Executive Officer and Director***

Mr. DeZwirek, age 35, has approximately ten years of experience in the new media industry and is considered a leader in the development of children's and family multimedia products. In 1999, Mr. DeZwirek co-founded Kaboose of which he is currently the Chairman, Chief Executive Officer and a director. Mr. DeZwirek is also currently a director of CECO Environmental Corp. (NASDAQ:CECE), an air pollution control company, and API Electronics Group (OTCBB:AEGCF), a manufacturer of circuits for the military, aerospace and commercial markets.

Upon completion of the Proposed Qualifying Transaction, Mr. DeZwirek expects to devote substantially all of his working time to managing the business of Amalco.

***Jonathan Graff – President and Director***

Mr. Graff, age 34, joined Kaboose as President in 2003. As President, Mr. Graff is responsible for all of Kaboose's sales and marketing, personnel and strategic partnership decisions. From 1998 to 2001, Mr. Graff was Director of Business Development with Homestore.com (NASDAQ:HOMS), an online real estate provider of listings in North America. Mr. Graff also managed Homestore's Canadian national sales force from 2000 to 2001. Mr. Graff holds an MBA from the Richard Ivey School of Business at the University of Western Ontario.

Upon completion of the Proposed Qualifying Transaction, Mr. Graff expects to devote substantially all of his working time to managing the business of Amalco.

***A. Murray Sinclair – Director***

Mr. Sinclair, age 44, is currently the Managing Director of Quest Capital Corp. (formerly, Quest Investment Corp.) ("**Quest**"). Quest trades on the TSX and is a merchant bank that provides financial services to small and mid-cap companies operating primarily in North America. From July 2002 to June 2003, Mr. Sinclair was the President of Quest Investment Corporation, a publicly listed merchant bank based in Vancouver, Canada. Previously, Mr. Sinclair was the managing director of Quest Oil & Gas Inc. from May 1993 to April 1997. Mr. Sinclair is currently a director and officer of a number of public companies. Mr. Sinclair obtained a Bachelors of Arts from Queens University.

Upon completion of the Proposed Qualifying Transaction, Mr. Sinclair expects to devote less than 5% of his working time to managing the business of Amalco.

***K. Peter Miller – Director***

Mr. Miller, age 59, is currently the Chief Financial Officer of Quest Management Corp., a management company that is wholly owned by Quest Capital Corp. From 1988 to 1997, he was the Treasurer of Quest Oil and Gas Inc. He is currently a director and/or officer of numerous other public companies. Mr. Miller obtained a Bachelor of Applied Sciences degree from the University of Waterloo and was granted the designation of Chartered Accountant from the Ontario Institute of Chartered Accountants in 1974.

Upon completion of the Proposed Qualifying Transaction, Mr. Miller expects to devote less than 5% of his working time to managing the business of Amalco.



***Michael Winton – Director***

Michael Winton, age 35, is one of Kaboose’s early investors and is currently the Vice President of The Equity Group and is President of Global Vending Corp., both private companies located in Dallas, Texas. Prior to joining The Equity Group and Global Vending Corp., Mr. Winton practiced as a lawyer with a boutique corporate law firm in Toronto, Ontario specializing in franchising, licensing and distribution law. He received his Bachelor of Arts degree from the University of Western Ontario and a J. D. from Touro Law School, Huntington, New York.

Upon completion of the Proposed Qualifying Transaction, Mr. Winton expects to devote less than 5% of his working time to managing the business of Amalco.

***Jonathan Pollack – Chief Financial Officer***

Mr. Pollack, age 34, brings financial and strategic experience in building both public and private companies to the Resulting Issuer. From 2000 to 2005, Mr. Pollack was President of The JMP Group, a strategic and financial advisory firm to numerous private and public companies based in Toronto, Ontario. From 1996 to 2000, he was a Vice President and founding member of Violy, Byorum & Partners, LLC, a New York based investment bank. Mr. Pollack is currently a director of Lifebank Cryogenics Corp. (TSX-V:LBK). Mr. Pollack received a Masters of Science in Finance from the London School of Economics and a Bachelors of Commerce from McGill University. He is involved in several philanthropic organizations and is the Vice Chair of Leadership Sinai at the Mt. Sinai Hospital and is Chair of the Crescent School Foundation.

Upon completion of the Proposed Qualifying Transaction, Mr. Pollack expects to devote substantially all of his working time to managing the business of Amalco.

**PROMOTER CONSIDERATION**

Jason DeZwirek and Quest Capital Corp. will be considered to be the promoters of Amalco upon completion of the Qualifying Transaction.

The number and percentage of each class of voting securities of Amalco to be beneficially owned, directly or indirectly, or over which control or direction will be exercised is as follows:

Name	Number and Percentage of Amalco Shares Held or Controlled Upon Completion of the Amalgamation <sup>(1)</sup>
Jason DeZwirek	19,607,838 <sup>(2)</sup> - (33.4%)
Quest Capital Corp.	1,000,000 - (1.7%)

**Notes:**

- (1) Assumes 58,643,413 Amalco Shares issued and outstanding.
- (2) Of the 19,607,838 Amalco Shares noted as held or controlled by Jason DeZwirek, 13,801,733 are owned by Green Diamond Oil Corp., a corporation of which Jason DeZwirek is an officer and director.

Other than payments made to the Promoters in their capacity as directors, officers or employees of Amalco and the grant of options in the ordinary course, nothing of value, including money, property, contracts, options or rights of any kind will be received by the Promoters directly or indirectly from Amalco or a subsidiary of the Resulting Issuer.

## OTHER REPORTING ISSUER EXPERIENCE

The following table sets forth the proposed directors, officers, and promoters of Amalco that are, or have been within the last five years, directors, officers or promoters of other reporting issuers:

Name of Director, Officer or Promoter	Name of Reporting Issuer	Exchange	Position	Term
Jason DeZwirek	API Electronics Group Corp.	OTCBB	Director	August 2001 to Present
	CECO Environmental Corp.	NASDAQ	Director	June 1993 to Present
A. Murray Sinclair	AimGlobal Technologies Company Inc.	TSX, AMEX	Director	July 2001 to August 2001
	Antrim Energy Inc.	TSX	Director	October 2002 to December 2004
	Arapaho Capital Corp.	TSX-V	Director	June 1998 to Present
	Aurora Platinum Corp.	TSX-V	Director	May 2000 to April 2005
	Avatar Petroleum Inc.	(1)	Director	July 2002 to June 2003
	Balloch Resources Ltd.	TSX-V	Director	May 1998 to Present
	Bannockburn Resources Limited	Not Listed	Director	July 1993 to Present
	Belvedere Resources Ltd.	TSX-V	Director	August 1993 to October 2002
	Berkley Resources Inc.	TSX-V	Director	June 2002 to November 2002
	Bradstone Equity Partners, Inc.	(2)	Director	June 2002 to July 2002
	Breakwater Resources Ltd.	TSX	Director	July 1993 to Present
	Crossfield Capital Corp.	TSX-V	Director President, Chief Financial Officer	March 2004 to Present March 2004 to February 2005
	easyhome Ltd.	TSX	Director	August 1993 to December 2000
	Eastern Platinum Limited	TSX-V	Director	December 2000 to April 2005
	Esperanza Silver Corporation	TSX-V	Director	December 1999 to September 2002
	Eurasian Minerals Inc.	TSX-V	Director	May 1996 to November 2003
Fifty-Plus.Net International Inc.	TSX-V	Director	June 1997 to October 2002	
Gabriel Resources Ltd.	TSX-V	Director	June 2003 to Present	
General Minerals Corporation	TSX	Director	June 2003 to Present	
Glenex Industries Inc.	(2)	Director	September 2001 to September 2001	
Groundstar Resources Limited	TSX-V	Director President	January 2003 to September 2005 January 2003 to December 2004	
GTO Resources Inc.	NEX	Director, President	November 2004 to Present	
Kirkland Lake Gold Inc.	TSX	Director	July 1994 to May 2005	

<b>Name of Director, Officer or Promoter</b>	<b>Name of Reporting Issuer</b>	<b>Exchange</b>	<b>Position</b>	<b>Term</b>
	Lagasco Corp.	TSX-V	Director	March 2001 to January 2005
	Lara Exploration Ltd.	TSX-V	Director	December 2003 to Present
	Magnifoam Technology Inc.	TSX	Director	February 1998 to September 2000
	Navan Capital Corp.	TSX-V	Director Vice-President	September 2003 to Present February 2000 to September 2003
	New Sleeper Gold Corp.	TSX-V	Director, President	September 2002 to March 2004
	Newmex Minerals Inc.	TSX-V	Director	March 2005 to Present
	PetroFalcon Corporation	TSX	Director President, Chief Executive Officer	November 2001 to June 2003 July 2002 to June 2003
	Proprietary Industries Inc.	TSX	Director	December 2004 to Present
	Quest Capital Corp.	TSX	Director Managing Director	June 2003 to Present July 2003 to Present
	Quest Investment Corporation	(1)	Director, President	July 2002 to June 2003
	Rentcash Inc.	TSX-V	Director	May 2002 to November 2003
	Reserve Royalty Corp. (taken over by Prime West Royalty Corp.)	Not Listed	Director	February 2000 to July 2000
	Rodin Communications Corporation	Not Listed	Director, President	February 2000 to October 2000
	Sanu Resources Ltd.	TSX-V	Director	January 2000 to January 2004
	Sextant Entertainment Group Ltd.	TSX-V	Director	December 1996 to December 2001
	Skye Resources Inc.	TSX-V	Director	January 2002 to Present
	Standard Uranium Inc. (formerly Goodfellow Resources Ltd.)	TSX-V	Director Vice-President	March 2003 to April 2005 December 2002 to January 2003
	Stockscape.com Technologies Inc.	(2)	Director	June 1999 to July 2002
	Twenty-Seven Capital Corp.	TSX-V	Director President, Chief Financial Officer, Chief Executive Officer, Secretary	July 2004 to Present July 2004 to March 2005
	Viceroy Exploration Ltd.	TSX-V	Director	March 2003 to December 2003
	Vista Gold Corp.	TSX, AMEX	Director	February 2002 to October 2002
	Wolfden Resources Inc.	TSX	Director	August 2000 to Present
K. Peter Miller	Arapaho Capital Corp.	TSX-V	Chief Financial Officer Director	August 2000 to Present June 1998 to August 2000

<b>Name of Director, Officer or Promoter</b>	<b>Name of Reporting Issuer</b>	<b>Exchange</b>	<b>Position</b>	<b>Term</b>
	Bannockburn Resources Limited.	TSX-V	Chief Financial Officer	January 2005 to Present
	Cypress Hills Resource Corp.	TSX-V	Chief Financial Officer	June 2002 to May 2005
	Eurasian Minerals Inc.	TSX-V	Director	May 1996 to Present
	Glenex Industries Inc.	(2)	Chief Financial Officer	May 2002 to July 2002
	Greystar Resources Ltd.	TSX	Chief Financial Officer	January 1997 to Present
	Groundstar Resources Limited	TSX-V	Chief Financial Officer	November 2004 to September 2005
	GTO Resources Inc.	NEX	Chief Financial Officer	November 2004 to Present
	Hatton Capital Corp.	TSX-V	Chief Financial Officer	February 2004 to April 2004
	Lagasco Corp.	TSX-V	Director	March 2001 to April 2005
	Lara Exploration Ltd.	TSX-V	Chief Financial Officer	December 2003 to Present
	Midway Gold Corp.	TSX-V	Chief Financial Officer	February 2002 to Present
	Navan Capital Corp.	TSX-V	Chief Financial Officer, Director	September 2003 to Present February 2000 to July 2005
	PetroFalcon Corporation	TSX-V	Chief Financial Officer	July 2002 to June 2003
	Quest Investment Corporation	(1)	Chief Financial Officer	July 2002 to June 2003
	Sanu Resources Ltd.	TSX-V	Chief Financial Officer	June 2000 to April 2004
	Standard Uranium Ltd.	TSX-V	Director Chief Financial Officer	December 1997 to Present December 1997 to October 2004
Jonathan Pollack	Invesprint Corp.	TSX-V	Director	May 2004 to April 2005
	Lifebank Cryogenics Corp.	TSX-V	Director	November 2003 to Present

**Notes:**

- (1) This company merged with several companies to form Quest Capital Corp.
- (2) This company merged with several companies to form Quest Investment Corp. which became Quest Capital Corp.

### **CEASE TRADE ORDERS OR CORPORATE BANKRUPTCIES**

Other than as set forth below, no director, officer, insider or shareholder holding a sufficient number of securities of Amalco to affect materially the control of Amalco is, or has been within the past ten years, a director, officer, insider or partner of any other issuer that, while that person was acting in that capacity, was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under Canadian securities legislation for a period of more than 30-consecutive days or

became a bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### **PetroFalcon Corporation**

On February 27, 2002 the British Columbia Securities Commission delivered an order relating to an application by Mercury Partners & Company Inc. to overturn a decision of the Canadian Venture Exchange Inc. (as it then was), namely an approval to close a private placement of 4,000,000 common shares of PetroFalcon Corporation (formerly Pretium Industries Inc. and Visualabs Inc.) (“PetroFalcon”) to Quest Ventures Ltd. which was completed in November 2001 (the “BCSC Order”). Subsequent to the private placement, Mr. Sinclair was appointed as a director of PetroFalcon. Pursuant to the BCSC Order, PetroFalcon was required to place the matter before its shareholders and in order that the status quo be maintained to the greatest extent possible until the occurrence of the shareholders meeting, the British Columbia Securities Commission considered it to be in the public interest to remove the applicability of exemptions from prospectus and registration requirements for PetroFalcon until the shareholders meeting was held. In addition, the British Columbia Securities Commission, during that time period, removed the applicability of exemptions from prospectus and registration requirements for Quest Ventures Ltd. (as subscriber to the private placement referred to above) in respect of the 4,000,000 common shares received pursuant to the private placement referred to above. During this time, Murray Sinclair was also a principal of Quest Ventures Ltd. The approval of shareholders was sought and received in May 2002 at a meeting of the shareholders.

### **Balloch Resources Ltd.**

A. Murray Sinclair is currently a director of Balloch Resources Ltd. (formerly New Inca Gold Ltd.) (“**Balloch**”), the shares of which are currently listed for trading on the Exchange. A Cease Trade Order was issued by the Alberta Securities Commission on March 15, 2002, the Ontario Securities Commission on February 22, 2002 and the British Columbia Securities Commission on February 25, 2002 against Balloch for failure to file their financial statements within the prescribed time period. The Alberta Cease Trade Order was rescinded on October 23, 2003, the Ontario Cease Trade Order was rescinded on September 20, 2002 and the British Columbia Cease Trade Order was rescinded on October 21, 2003 and Balloch is currently up to date with its financial statement filings.

## **PENALTIES AND SANCTIONS**

No director, officer or shareholder holding a sufficient number of securities of the corporation to affect materially the control of Amalco has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian Securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **PERSONAL BANKRUPTCIES**

No director, officer or shareholder holding a sufficient number of securities of Amalco to affect materially the control of Amalco, or a personal holding company of any such person has, within the past ten years, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such person.

## COMPENSATION OF DIRECTORS

### Compensation of Directors

It is anticipated that Amalco, upon completion of the Amalgamation, will pay no cash compensation (including salaries, director’s fees, commissions, bonuses paid for services rendered, bonuses paid for services rendered in a previous year, and any compensation other than bonuses earned by the directors for services rendered) to the directors for the fiscal year in which the Amalgamation occurs for services rendered as directors only.

Proposed executive officers of Amalco who are also anticipated to act as directors of Amalco upon completion of the Amalgamation will not receive any additional compensation for services rendered in such capacity, other than as paid by Amalco upon completion of the Amalgamation to such executive officers in their capacity as executive officers. See “*Compensation of Executive Officers*” and “*Employment Contracts*” herein.

### COMPENSATION OF EXECUTIVE OFFICERS AND SUMMARY COMPENSATION TABLE

The following table sets forth the expected annual and long-term compensation for services in all capacities to Amalco for the twelve months following completion of the Amalgamation in respect of individual(s) who are expected to be acting in a capacity similar to the chief executive officer of Amalco and the four most highly compensated Executive Officers.

SUMMARY COMPENSATION TABLE								
Name and Principal Position	Year – Ended December 31	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$) <sup>(1)</sup>	Bonus (\$)	Other Annual Compensation	Awards		Payouts	
					Securities Under Options/SAR <sup>(2)</sup> Granted (#)	Shares or Units Subject to Resale Restrictions (\$)	LTIP <sup>(2)</sup> Payouts (\$)	
<b>Jason DeZwirek</b> Chief Executive Officer and Director	2005	\$160,000	Nil	Nil	100,000	Nil	Nil	Nil
<b>Jonathan Graff</b> President and Director	2005	\$175,000	Nil	Nil	100,000	Nil	Nil	Nil
<b>Jonathan Pollack</b> Chief Financial Officer	2005	\$130,000	Nil	Nil	150,000	Nil	Nil	Nil

**Notes:**

- (1) Expected salary for the twelve months following completion of the Amalgamation.
- (2) “LTIP “ or “long-term incentive plan” means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include option or stock appreciation right plans or plans for compensation through restricted shares or restricted share units.

## Stock Options Granted to Executive Officers and Directors

Upon completion of the Amalgamation, Executive Officers and directors of the Amalco will hold options as follows:

Optionee	Number of Amalco Shares Reserved Under Option	Exercise Price	Expiry Date
<b>Jason DeZwirek</b> Chief Executive Officer and Director	620,000	\$0.24	July 1, 2009
	310,000	\$0.56	July 16, 2010
<b>Jonathan Graff</b> President and Director	1,188,332	\$0.21	August 1, 2010
	930,000	\$0.24	July 1, 2009
	310,000	\$0.56	July 16, 2010
<b>Jonathan Pollack</b> Chief Financial Officer	310,000	\$0.38	March 31, 2010
	155,000	\$0.56	July 16, 2010
<b>Michael Winton</b> Director	15,500	\$0.32	December 31, 2009
<b>A. Murray Sinclair</b> Director	50,000	\$0.25	July 7, 2010
<b>K. Peter Miller</b> Director	50,000	\$0.25	July 7, 2010
<b>Eric Yuzpe</b> Director	9,300	\$0.24	May 31, 2009
<b>Total</b>	<b>3,948,132</b>		

## Long-term Incentive Plans

Apart from stock options granted pursuant to the Plan expected to be approved at the Meeting, it is not anticipated that Amalco will have any long-term incentive plans following completion of the Amalgamation.

## Stock Appreciation Rights (“SAR”) and Restricted Shares

It is not anticipated that the Amalco will grant any stock appreciation rights during the fiscal year in which the Amalgamation occurs.

## PENSION AND RETIREMENT PLANS AND PAYMENTS MADE UPON TERMINATION OF EMPLOYMENT

It is not anticipated that Amalco will have in place any pension or retirement plan in the near future. It is anticipated that Amalco will not provide compensation, monetary or otherwise, to any person who now acts or has previously acted as an Executive Officer of the Corporation or Kaboose, in connection with or related to the retirement, termination or resignation of such person. It is not anticipated that Amalco will provide any compensation to such persons as a result of a change of control of Amalco, its subsidiaries or affiliates. It is not anticipated that Amalco will be a party to any compensation plan or arrangement with its executive officers resulting from the resignation, retirement or the termination of employment of such person.

## **Employment Contracts**

The Corporation does not have any employment agreements in place. Jonathan Pollack, the Chief Financial Officer of Kaboose, is employed pursuant to a consulting arrangement with Kaboose for an annual salary of \$130,000, expiring December 31, 2005, at which time the arrangement will be renewed or expire at the option of both parties. It is anticipated that certain key individuals will enter into employment contracts with Amalco.

## **Other Compensation**

Other than the compensation as set forth herein, it is not anticipated that Amalco will pay any additional compensation to the Named Executive Officers or directors (including personal benefits and securities or properties paid or distributed which compensation was not offered on the same terms to all full time employees) during the financial year ending December 31, 2005.

## **AGGREGATE OWNERSHIP OF SECURITIES BY DIRECTORS, OFFICERS AND PROMOTERS AND PUBLIC AND INSIDER OWNERSHIP**

After giving effect to the Amalgamation, the directors, officers, and Associates of directors and officers, insiders and promoters of Amalco will beneficially own, directly or indirectly, 23,618,860 Amalco Shares, representing approximately 40% of the issued and outstanding Amalco Shares.

After giving effect to the Amalgamation, the aggregate number of issued and outstanding Amalco Shares held by the public will be 35,024,553 representing approximately 60% of the issued and outstanding Amalco Shares.

## **CONFLICTS OF INTEREST**

Certain proposed directors and officers of Amalco are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with Amalco are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Amalco. Some of the directors and officers of Amalco have or will have either other employment or other business or time restrictions placed on them and accordingly, these directors and officers of Amalco will only be able to devote part of their time to the affairs of Amalco.

## **STOCK OPTIONS**

### **Options to Acquire Amalco Shares Upon Completion of the Amalgamation**

The following table shows the particulars of the anticipated Amalco Options to acquire Amalco Shares upon completion of the Amalgamation:



Category	Number of Amalco Shares Under Option	Exercise Price (\$) <sup>(1)</sup>	Expiry Date	Market Value per Share on the Initial Date of Grant <sup>(3)</sup>
<b><i>Proposed Directors and Officers</i></b>				
Jason DeZwirek	620,000	\$0.24	July 1, 2009	\$0.24
	310,000	\$0.56	July 16, 2010	\$0.56
Jonathan Graff	1,188,332	\$0.21	August 1, 2010	\$0.21
	930,000	\$0.24	July 1, 2009	\$0.24
	310,000	\$0.56	July 16, 2010	\$0.56
Michael Winton	15,500	\$0.32	December 31, 2009	\$0.32
A. Murray Sinclair	50,000	\$0.25	July 7, 2010	\$0.25
K. Peter Miller	50,000	\$0.25	July 7, 2010	\$0.25
Jonathan Pollack	310,000	\$0.39	March 31, 2010	\$0.38
	155,000	\$0.56	July 16, 2010	\$0.56
Eric Yuzpe	9,300	\$0.24	May 31, 2009	\$0.24
<b><i>Consultants</i></b>				
Consultants	937,750	\$0.21	August 1, 2010	\$0.21
Consultants	155,000	\$0.27	September 1, 2009	\$0.27
Consultants	186,000	\$0.39	March 31, 2010	\$0.39
Consultants	186,000	\$0.56	July 16, 2010	\$0.56
<b><i>Employees</i></b>				
Employees	82,150	\$0.24	May 31, 2009	\$0.24
Employees	9,300	\$0.27	August 31, 2009	\$0.27
Employees	12,400	\$0.29	September 30, 2009	\$0.29
Employees	6,200	\$0.32	December 31, 2009	\$0.32
Employees	27,900	\$0.39	March 31, 2010	\$0.39
Employees	77,500	\$0.42	May 1, 2010	\$0.42
Employees	176,700	\$0.56	July 16, 2010	\$0.56
Employees	150,000	\$0.70	September 20, 2010	\$0.70
<b><i>Former Directors and Officers</i></b>				
Stewart Robertson <sup>(2)</sup>	50,000	\$0.25	July 7, 2010	\$0.25
<b>Total</b>	<b>6,005,032</b>			

**Notes:**

- (1) The exercise price of the options was calculated by dividing the original exercise price of the original option granted by the securities exchange ratio of 3.1 to 1 and 1 to 1 for the Kaboose Securities and the Iron Springs Securities, respectively. See “Part IV - Information Regarding Iron Springs Capital Corp. - Stock Options” and “Part V - Information Regarding Kaboose Inc. - Stock Options”.
- (2) These options will expire the greater of 12 months after the completion of Qualifying Transaction and 90 days following cessation of the optionee’s position with the Corporation.
- (3) The market value per Amalco Share upon the date of grant cannot be determined until the date of grant.

There are no assurances that the options described above will be exercised in whole or in part.

The Corporation has adopted an incentive stock option plan (previously defined as the “**Plan**”) which provides that the Board of Directors of the Corporation may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Corporation, non-transferable options to purchase IS Shares, provided that the number of IS Shares reserved for issuance, together with any options issued to eligible charitable organizations, will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to: (a) any individual director or officer will not exceed five percent (5%) of the issued and outstanding common shares; (b) all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares; and (c) all eligible charitable organizations will not exceed one percent (1%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee’s position with the Corporation, provided that if the cessation of office, directorship, or technical consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. Subject to shareholder approval at the Meeting, this Plan will no longer be the stock option plan for Amalco and the new Plan will be in place.

### **ESCROWED SECURITIES**

As at the Effective Date, there are 1,120,000 IS Shares held in escrow (the “**CPC Escrowed Shares**”) representing 48.5% of the total issued and outstanding IS Shares. All of these CPC Escrowed Shares are escrowed pursuant to an escrow agreement dated June 14, 2005 among the Corporation, Computershare Trust Company of Canada and certain shareholders of the Corporation. The CPC Escrowed Shares will be releasable as to 10% thereof following issuance by the Exchange of the Final Exchange Bulletin in respect of the Proposed Qualifying Transaction and as to 15% thereof on each of the 6, 12, 18, 24, 30 and 36 month anniversaries of the Final Exchange Bulletin. The release from escrow of the CPC Escrowed Shares may be accelerated if the Resulting Issuer is classified as a Tier I issuer on the TSX Venture.

The following table lists the names of beneficial owners of CPC Escrowed Shares as at the date hereof after giving effect to the Proposed Qualifying Transaction and the Kaboose Private Placement:

Name and Municipality of Residence of Shareholder	Number of IS Shares Escrowed	Percentage of IS Shares Prior to Giving Effect to the Amalgamation <sup>(1)</sup>	Percentage of Amalco Shares of After Giving Effect the Amalgamation <sup>(2)</sup>
<b>A. Murray Sinclair</b> Vancouver, British Columbia	40,000	1.7%	<1%
<b>K. Peter Miller</b> West Vancouver, British Columbia	40,000	1.7%	<1%
<b>Stewart Robertson</b> Vancouver, British Columbia	40,000	1.7%	<1%
<b>Quest Capital Corp.</b> Vancouver, British Columbia	1,000,000	43.1%	1.7%

**Notes:**

- (1) Assumes 2,320,000 IS Shares issued and outstanding.
- (2) Assumes 58,643,413 Amalco Shares issued and outstanding.

In addition, 22,538,860 Amalco Shares to be issued by Amalco under the Proposed Qualifying Transaction are expected to be placed in escrow on terms to be set by the Exchange and agreed to by

certain of the Amalco Shareholders (the “**Exchange Escrow**”). The Exchange Escrow is applicable to the Amalco Securities issued in exchange for Kaboose Securities of all insiders and associates of insiders of Kaboose or the Corporation.

The terms of the Exchange Escrow are such that the first release of escrowed securities issued in connection with the Proposed Qualifying Transaction will be on the date of the Final Exchange Bulletin confirming final acceptance of the Proposed Qualifying Transaction. For a Tier II Issuer, securities issued in conjunction with a Qualifying Transaction which are escrowed and viewed by the TSX Venture as “surplus securities” will be released as to 5% thereof six months following issuance by the TSX Venture of the Final Exchange Bulletin, and as to 5% thereof on each of the 12, 18 and 24 month anniversaries of the Final Exchange Bulletin and as to 10% thereof on each of the 30, 36, 42, 48, 54, 60, 66 and 72 month anniversaries of the Final Exchange Bulletin. For a Tier II Issuer, securities issued in conjunction with a Qualifying Transaction which are escrowed and viewed by the TSX Venture as “value securities” will be released as to 10% thereof following issuance by the TSX Venture of the Final Exchange Bulletin, and as to 15% thereof on each of the 6, 12, 18, 24, 30 and 36 month anniversaries of the initial release. For a Tier I Issuer, securities issued in conjunction with a Qualifying Transaction which are escrowed and viewed by the TSX Venture as “surplus securities” will be released as to 10% thereof following issuance by the TSX Venture of the Final Exchange Bulletin, and as to 15% thereof on each of the 6, 12, 18, 24, 30 and 36 month anniversaries of the initial release. For Tier I Issuers, securities issued in conjunction with a Qualifying Transaction which are escrowed and viewed by the TSX Venture as “value securities” will be released as to 25% thereof following issuance by the TSX Venture of the Final Exchange Bulletin, and as to 25% thereof on each of the 6, 12 and 18 month anniversaries of the initial release. It is expected that upon completion of the Proposed Qualifying Transaction the Corporation will be classified as a Tier II issuer and the securities held under Exchange Escrow will be viewed by the TSX Venture as “Value Securities”.

The following table lists the names of beneficial owners of the securities that are expected to be subject to the Exchange Escrow as “value securities” and the number of securities held by each:

<b>Name</b>	<b>Designation of Class of Amalco Shares<sup>(1)</sup></b>	<b>Number and Percentage of Securities held in Exchange Escrow after Giving Effect to the Amalgamation</b>
Jason DeZwirek	common shares	5,806,105 Amalco Shares (9.9%) 930,000 Amalco Options (15.5%)
Jonathan Graff	common shares	335,832 Amalco Shares (0.6%) 2,428,332 Amalco Options (40.4%)
Jonathan Pollack	common shares	465,000 Amalco Options (7.8%)
Eric Yuzpe	common shares	2,506,322 Amalco Shares (4.3%) 9,300 Amalco Options (0.15%)
Green Diamond Oil Corp.	common shares	13,801,733 Amalco Shares (23.5%) 361,666 Amalco Warrants (95%)
ConceptFund Inc. <sup>(1)</sup>	common shares	20,666 Amalco Warrants (5%)
Michael Winton	common shares	88,868 Amalco Shares (0.2%) 15,500 Amalco Options (0.25%)
<b>Total</b>		<b>22,538,860 (38.4%) Amalco Shares</b> <b>3,848,132 (64.1%) Amalco Options</b> <b>382,332 (100%) Amalco Warrants</b>

During the time that any Amalco Shares are held in escrow, the holder of such shares may not sell, transfer, assign, mortgage, enter into a derivative transaction concerning, or otherwise deal in any way

with the shares without the prior approval of the Exchange. Subject to compliance with the terms of the Kaboose Value Escrow Agreement, the Exchange may approve a transfer of escrowed shares within escrow under the following circumstances:

- (a) The pledge, mortgage or charge of escrowed shares to a financial institution as collateral for a loan, and any subsequent transfer of the shares upon the realization of the collateral;
- (b) The transfer of escrowed shares to existing or, upon their appointment, incoming directors or senior officers of the Resulting Issuer or any of its material operating subsidiaries;
- (c) The transfer of escrowed shares to a person or company that before the proposed transfer holds more than 20% of the voting rights attached to Resulting Issuer's outstanding shares, or to a person or company that after the proposed transfer:
  - (i) Will hold more than 10% of the voting rights attached to the Resulting Issuer's outstanding shares, and
  - (ii) Has the right to elect or appoint one or more directors or senior officers of the Resulting Issuer or any of its material operating subsidiaries;
- (d) The transfer of escrowed shares to a trustee in bankruptcy or another person or company entitled to escrow shares on bankruptcy;
- (f) The transfer of escrowed shares to or between a registered retirement savings plan, registered retirement income fund or other similar registered plan or fund with a trustee, where the beneficiaries of the plan or fund are limited to the spouse, children and parents of the shareholder;
- (g) The transfer of escrowed shares to an offeror or other person in connection with certain prescribed business combinations; and
- (h) Any transfer of escrowed shares that the Exchange in its discretion, upon application, may approve.

The Kaboose Value Escrow Agreement will also provide that the escrowed shares of a holder will be released upon the death of the holder. It will also provide that if the Resulting Issuer should become a Tier 1 issuer during the term of the Kaboose Value Escrow Agreement, any shares remaining in escrow shall become subject to the more liberal release provisions applicable to Tier 1 issuers.

The Exchange has the discretion to alter the Exchange Escrow as discussed herein.

Transfers within escrow to directors and senior officers, transfer to other principals, transfers upon bankruptcy, transfers upon realization of pledged, mortgaged or charged escrow securities, and transfers to certain plans and funds are permitted subject to the Exchange's policies.

### **DIVIDEND POLICY**

It is not contemplated that any dividends will be paid in the immediate or foreseeable future of Amalco.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

Upon completion of the Amalgamation, it is anticipated that the transfer agent and registrar for the Amalco Shares will continue to be Computershare.

Subject to shareholder approval herein, it is anticipated that the auditors of Amalco will be Davidson & Company LLP, Chartered Accountants.

#### **INVESTOR RELATIONS ARRANGEMENTS**

There are no investor relations arrangements involving the Corporation, as none are currently contemplated for Amalco.

#### **INTERESTS OF EXPERTS**

None of Borden Ladner Gervais LLP or Davidson & Company or any director, officer, employee or partner thereof received or has received a direct or indirect interest in the property of the Corporation or of any associate or affiliate of the Corporation. Except for less than 1% of the IS Shares held by lawyers of Borden Ladner Gervais LLP, no person or company whose profession or business (including Davidson & Company) gives authority to a statement made by such person or company and who is named as having prepared or certified a part of this Circular holds any beneficial interest, direct or indirect, in any securities or property of the Corporation or of Kaboose or of an associate or affiliate of the Corporation or Kaboose.

#### **SPONSORSHIP AND AGENT RELATIONSHIP**

Kaboose has applied for and the Exchange has accepted and granted an exemption and waiver of the sponsorship requirements of the Exchange.

#### **MATERIAL CONTRACTS**

All material contracts of the Corporation and Kaboose will continue as material contracts of the Resulting Issuer upon completion of the Amalgamation. See "*Material Contracts*" in the Circular.

**SCHEDULE 1**  
**AMALGAMATION AGREEMENT**

## AMALGAMATION AGREEMENT

THIS AGREEMENT dated as of the \_\_\_\_\_ day of October, 2005.

### BETWEEN:

**Kaboose Inc.** a body corporate existing under the federal laws of Canada  
(hereinafter referred to as “**Kaboose**”)

OF THE FIRST PART

- and -

**Iron Springs Capital Corp.**, a body corporate incorporated under the  
laws of Alberta (hereinafter referred to as “**Iron Springs**”)

OF THE SECOND PART

### WHEREAS:

1. Kaboose and Iron Springs wish to amalgamate and continue as one corporation to be known as “Kaboose Inc.” in accordance with the terms and conditions hereof;
2. Kaboose and Iron Springs are parties to the Qualifying Transaction Agreement which contemplates such amalgamation; and
3. The parties have entered into this Agreement to provide for the matters referred to in the foregoing recitals and for other matters relating to the proposed amalgamation.

NOW THEREFORE IN CONSIDERATION OF THE COVENANTS AND AGREEMENTS CONTAINED IN THIS AGREEMENT THE PARTIES HERETO AGREE AS FOLLOWS:

1. **Definitions.** In this Agreement (including the recitals hereto) and each Schedule hereto:
  - (a) “**Act**” means the *Canada Business Corporations Act* as from time to time amended or re-enacted;
  - (b) “**Agreement**” means this amalgamation agreement;
  - (c) “**Amalco**” means the continuing corporation constituted upon the amalgamation of the Amalgamating Parties pursuant to the Amalgamation;
  - (d) “**Amalco Agent’s Options**” means the options to purchase Amalco Shares to be issued to the former holder of the Iron Springs Agent’s Options pursuant to the terms of the Amalgamation Agreement;
  - (e) “**Amalco Broker’s Warrants**” means the broker’s warrants to be issued to the former holders of the Kaboose Broker’s Warrants pursuant to the terms of the Amalgamation Agreement;

- (f) “**Amalco Compensation Options**” means the compensation options to be issued to the former holders of the Kaboose Compensation Options pursuant to the terms of this Agreement;
- (g) “**Amalco Options**” means the options to purchase Amalco Shares to be issued to the former holders of the Iron Springs Options and the Kaboose Options pursuant to this terms of the Agreement;
- (h) “**Amalco Securities**” means collectively, the Amalco Shares, the Amalco Options, the Amalco Agent’s Options, the Amalco Broker’s Warrants, the Amalco Compensation Options and the Amalco Warrants to be issued pursuant to the terms of this Agreement;
- (i) “**Amalco Shares**” means the common shares in the capital of Amalco;
- (j) “**Amalco Warrants**” means the common share purchase warrants of Amalco to be issued to holders of Kaboose Warrants in exchange for their Kaboose Warrants pursuant to the Amalgamation, wherein each Amalco Warrant shall entitle the holder to acquire one additional Amalco Share at an exercise price of \$0.21 until September 26, 2008;
- (k) “**Amalgamating Parties**” means Kaboose and Iron Springs;
- (l) “**Amalgamation**” means an amalgamation of Kaboose and Iron Springs under the provisions of Part XV - Fundamental Changes of the Act, on the terms and conditions set forth in this Agreement;
- (m) “**Articles of Amalgamation**” means the articles of amalgamation set forth in Schedule “A” hereto, together with such changes or amendments thereto as are permitted hereby or otherwise agreed to by the Amalgamating Parties;
- (n) “**Business Day**” means a day other than a Saturday, Sunday or a civic or statutory holiday in any of the City of Toronto in the Province of Ontario;
- (o) “**Certificate**” means the certificate of amalgamation issued by the Registrar in respect of the Amalgamation;
- (p) “**Effective Date**” means the effective date of the Amalgamation as set forth in the Certificate;
- (q) “**Financing**” means the private placement of Kaboose raising gross proceeds of up to \$10,000,000.00 by the issuance of subscription receipts, entitling the holders thereof to acquire Kaboose Shares for no additional consideration, which shall close prior to the Amalgamation;
- (r) “**Information Circular**” means the management information circular of Iron Springs dated October 17, 2005 prepared in accordance with the policies of the TSX Venture Exchange in connection with the Qualifying Transaction;
- (s) “**Iron Springs Agent’s Options**” means the options granted to Haywood Securities Inc. and its sub-agents in connection with Iron Springs’ initial public offering, to acquire up to 100,000 Iron Springs Shares at any time until July 13, 2007 at an exercise price of \$0.25 per Iron Springs Share;



- (t) “**Iron Springs Options**” means the options to purchase 150,000 Iron Springs Shares at an exercise price of \$0.25 per Iron Springs Share that have been granted to the directors and officers of Iron Springs;
  - (u) “**Iron Springs Shares**” means the common shares in the capital of Iron Springs;
  - (v) “**Kaboose Broker Warrants**” means the 100,097 common share purchase warrants to purchase Kaboose Shares at an exercise price of \$1.30 that expire on the earlier of May 18, 2007 and 12 months following a “going public” transaction that have been granted to the agent;
  - (w) “**Kaboose Compensation Options**” means the options to purchase Kaboose Shares to be granted to GMP Securities Ltd. in connection with the Financing;
  - (x) “**Kaboose Options**” means the 1,888,720 options to purchase Kaboose Shares that have been granted to the directors, officers and employees of Kaboose at exercise prices ranging from \$0.66 to \$2.17 per Kaboose Share;
  - (y) “**Kaboose Shares**” means the common shares in the capital of Kaboose currently issued and outstanding and includes those common shares to be issued as a result of the conversion of all Kaboose class A preferred shares, Kaboose class B preferred shares, Kaboose special warrants and Kaboose subscription receipts, all such securities to convert into Kaboose Shares for no additional consideration, preceding completion of the Amalgamation;
  - (z) “**Kaboose Warrants**” means the 123,333 outstanding common share purchase warrants to purchase Kaboose Shares at an exercise price of \$0.66 until September 26, 2008;
  - (aa) “**Qualifying Transaction**” means the business combination between Kaboose and Iron Springs wherein Kaboose and Iron Springs shall amalgamate, which will constitute the qualifying transaction of Iron Springs pursuant to TSX Venture Exchange Policy 2.4 - *Capital Pool Companies*;
  - (bb) “**Qualifying Transaction Agreement**” means the agreement dated October 17, 2005 entered into between Kaboose, Iron Springs and Jason DeZwirek governing the terms and conditions of the Qualifying Transaction; and
  - (cc) “**Registrar**” means the Registrar of Corporations or a Deputy Registrar of Corporations for the federal jurisdiction of Canada duly appointed under the Act.
2. **Amalgamation.** The Amalgamating Parties hereby agree to amalgamate and continue as one corporation under the provisions of the Act upon the terms and conditions hereinafter set out.
3. **Effect of Amalgamation.** On the Effective Date, subject to the Act:
- (a) the amalgamation of the Amalgamating Parties and their continuance as one corporation, Amalco, under the terms and conditions prescribed in this Agreement shall be effective;
  - (b) the property of each of the Amalgamating Parties shall continue to be the property of Amalco;

- (c) Amalco shall continue to be liable for the obligations of each of the Amalgamating Parties;
  - (d) any existing cause of action, claim or liability to prosecution with respect to either or both of the Amalgamating Parties shall be unaffected;
  - (e) any civil, criminal or administrative action or proceeding pending by or against any of the Amalgamating Parties may be continued to be prosecuted by or against Amalco;
  - (f) any conviction against, or ruling, order or judgment in favour of or against, any of the Amalgamating Parties maybe enforced by or against Amalco; and
  - (g) the articles of amalgamation of Amalco shall be deemed to be the articles of incorporation of Amalco and the Certificate shall be deemed to be the Certificate of Incorporation of Amalco.
4. **Name.** The name of Amalco shall be “Kaboose Inc.” or such other name as may be approved by the regulatory authorities.
  5. **Registered Office.** The registered office of Amalco shall be in the City of Toronto in the Province of Ontario.
  6. **Authorized Capital.** The authorized capital of Amalco shall consist of an unlimited number of Amalco Shares and an unlimited number of preferred shares issuable in series, and each such class shall have the rights, privileges, restrictions and conditions applicable thereto as set forth in the Articles of Amalgamation.
  7. **Restrictions on Business.** There shall be no restrictions on the business which Amalco is authorized to carry on.
  8. **Restrictions on Transfer.** The restrictions on the right to transfer any shares of Amalco shall be as set forth in the Articles of Amalgamation.
  9. **Other Provisions of Articles.** The other provisions contained in the articles of Amalco shall be as set forth in the Articles of Amalgamation.
  10. **Articles.** The Amalgamating Parties hereby agree that the Articles of Amalgamation of Amalco shall be the Articles attached hereto as Schedule “A”.
  11. **By-Laws.** The Amalgamating Parties hereby agree that the By-Laws of Amalco shall be the By-Laws in substantially the form attached hereto as Schedule “B”.
  12. **Number of Directors.** The minimum number of directors of Amalco shall be three (3) and the maximum number of directors of Amalco shall be eleven (11).
  13. **First Directors and Officers.** The first directors and officers of Amalco shall be the persons whose names and addresses are set out below, who, if a director, shall hold office until the first annual meeting of shareholders of Amalco or until their successors are duly elected or appointed and will be responsible for the subsequent management and operation of Amalco:

<b>Name</b>	<b>Address</b>	<b>Position</b>
Jason DeZwirek	c/o Suite 1400 505 University Avenue Toronto, Ontario M5G 1X3	Chief Executive Officer and Director
Jonathan Graff	c/o Suite 1400 505 University Avenue Toronto, Ontario M5G 1X3	President and Director
A. Murray Sinclair	c/o Suite 300, 570 Granville Street Vancouver, British Columbia V6C 3P1	Director
K. Peter Miller	c/o Suite 300, 570 Granville Street Vancouver, British Columbia V6C 3P1	Director
Michael Winton	c/o Suite 1400 505 University Avenue Toronto, Ontario M5G 1X3	Director
Jonathan Pollack	c/o Suite 1400 505 University Avenue Toronto, Ontario M5G 1X3	Chief Financial Officer

14. **Treatment of Issued Capital.** On the Effective Date:

- (a) each issued and outstanding Kaboose Share shall be converted into 1 issued and fully paid Amalco Share;
- (b) each issued and outstanding Iron Springs Share shall be converted into 1 issued and fully paid Amalco Share;
- (c) all Iron Springs Shares and Kaboose Shares exchanged for issued and fully paid Amalco Shares in accordance with the provisions of sections 14(a) and 14(b) hereof shall be cancelled;
- (d) each issued and outstanding Kaboose Warrant shall be converted into 3.1 Amalco Warrants;
- (e) all Kaboose Warrants exchanged for Amalco Warrants in accordance with the provisions of section 14(d) hereof shall be cancelled;
- (f) each outstanding Iron Springs Option shall be converted into one 1 Amalco Option having the same terms and conditions as the Iron Springs Option;
- (g) each outstanding Kaboose Broker Warrant shall be converted into 3.1 Amalco Broker's Warrants having the same terms and conditions as the Kaboose Broker Warrants;

- (h) each outstanding Kaboose Option shall be converted into 3.1 Amalco Options having the same terms and conditions as the Kaboose Options;
  - (i) each outstanding Iron Springs Agent's Option shall be converted into 1 Amalco Agent's Option having the same terms and conditions as the Iron Springs Agent's Option;
  - (j) each outstanding Kaboose Compensation Option shall be converted into 1 Amalco Compensation Option having the same terms and conditions as the Kaboose Compensation Option; and
  - (k) all Iron Springs Options, Kaboose Options, Iron Springs Agent's Options, Kaboose Broker's Warrants and Kaboose Compensation Options exchanged for Amalco Options, Amalco Agent's Options, Amalco Broker's Warrants and Amalco Compensation Options in accordance with the provisions of sections 14(d)(f) through 14(j) hereof shall be cancelled.
15. **Fractional Shares Upon Conversion.** Notwithstanding section 13 of this Agreement, no securityholders of Iron Springs and Kaboose shall be entitled to, and Amalco will not issue, fractions of Amalco Securities, as the case may be.
16. **General Conditions Precedent.** The respective obligations of the parties hereto to consummate the transactions contemplated hereby, and in particular the Amalgamation, are subject to the satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by the consent of each of the parties without prejudice to their rights to rely on any other or others of such conditions:
- (a) this Agreement and the transactions contemplated hereby, including, in particular, the Amalgamation, shall be approved by the shareholders of Kaboose and Iron Springs at the time of the resolution who, being entitled to do so, vote in accordance with the Act;
  - (b) all the conditions required to close the Qualifying Transaction being met or waived; and
  - (c) there shall not be in force any order or decree restraining or enjoining the consummation of the transactions contemplated by this Agreement, including, without limitation, the Amalgamation.
17. **Amendment.** This Agreement may at any time and from time to time be amended by written agreement of the parties hereto without, subject to applicable law, further notice to or authorization on the part of their respective shareholders and any such amendment may, without limitation:
- (a) change the time for performance of any of the obligations or acts of the parties hereto;
  - (b) waive any inaccuracies or modify any representation or warranty contained herein or in any document delivered pursuant hereto;
  - (c) waive compliance with or modify any of the covenants contained herein and waive or modify performance of any of the obligations of the parties hereto; or
  - (d) waive compliance with or modify any other conditions precedent contained herein.

18. **Termination.** This Agreement may, prior to the issuance of the Certificate, be terminated by mutual agreement of the respective boards of directors of the parties hereto, without further action on the part of the shareholders of Kaboose or Iron Springs. This Agreement shall also terminate without further notice or agreement if:
- (a) the Amalgamation is not approved by the shareholders of Kaboose or Iron Springs entitled to vote in accordance with the Act; or
  - (b) the Qualifying Transaction Agreement governing the terms and conditions of the Qualifying Transaction is not executed or terminates.
19. **Binding Effect.** This Agreement shall be binding upon and enure to the benefit of the parties hereto.
20. **Assignment.** No party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of each of the other parties.
21. **Further Assurances.** Each of the parties hereto agrees to execute and deliver such further instruments and to do such further reasonable acts and things as may be necessary or appropriate to carry out the intent of this Agreement.
22. **Notice.** Any notice which a party may desire to give or serve upon another party shall be in writing and may be delivered, mailed by prepaid registered mail, return receipt requested or sent by telecopy transmission to the following addresses:

- (a) **Iron Springs Capital Corp.** addressed to:

Suite 300, 570 Granville Street  
Vancouver, British Columbia V6C 3P1  
Attention: President and Chief Executive Officer  
Telephone No.: (604) 689-1428  
Facsimile No.: (604) 681-4692

with a copy to:

**Borden Ladner Gervais LLP**  
1000 Canterra Tower  
400 - 3<sup>rd</sup> Avenue S.W.  
Calgary, Alberta T2P 4H2  
Attention: Melinda Park  
Telephone No.: (403) 232-9500  
Facsimile No.: (403) 266-1395

- (b) **Kaboose Inc.**

505 University Avenue  
Suite 1400  
Toronto, Ontario M5G 1X3  
Attention: Jason DeZwirek, Chief Executive Officer  
Telephone No.: (416) 593-3000  
Facsimile No.: (416) 593-4658

with a copy to:

**WeirFoulds LLP**  
130 King Street West  
Suite 1600  
Toronto, Ontario M5X 1J5  
Attention: Sanjay Joshi  
Telephone No.: (416) 947-5013  
Facsimile No.: (416) 365-1876

or to such other address as the party to or upon whom notice is to be given or served has communicated to the other parties by notice given or served in the manner provided for in this section. In the case of delivery or telecopy transmission, notice shall be deemed to be given on the date of delivery and in the case of mailing, notice shall be deemed to be given on the third Business Day after such mailing.

23. **Time of Essence.** Time shall be of the essence of this Agreement.
24. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

**IN WITNESS WHEREOF** this Agreement has been duly executed by the parties hereto under their respective corporate seals.

**IRON SPRINGS CAPITAL CORP.**

Per: \_\_\_\_\_

**KABOOSE INC.**

Per: \_\_\_\_\_

**SCHEDULE A**

**Articles of Amalgamation**





Industry Canada

Canada Business Corporations Act

Industrie Canada

Loi canadienne sur les sociétés par actions

FORM 9  
ARTICLES OF AMALGAMATION  
(SECTION 185)

FORMULE 9  
STATUTS DE FUSION  
(ARTICLE 185)

1. Name of amalgamated corporation Kaboose Inc.	Dénomination de la société issue de la fusion
2. The place in Canada where the registered office is to be situated Toronto, Ontario	Lieu au Canada où doit être situé le siège social
3. The classes and any maximum number of shares that the corporation is authorized to issue The attached Schedule "A" is incorporated in this form.	Catégories et tout nombre maximal d'actions que la société est autorisée à émettre
4. Restrictions, if any, on share transfers None.	Restrictions sur le transfert des actions, s'il y a lieu
5. Number (or minimum and maximum number) of directors Minimum: 3 Maximum: 11	Nombre (ou nombre minimum et maximum) d'administrateurs
6. Restrictions, if any, on businesses the corporation may carry on None.	Limites imposées à l'activité commerciale de la société, s'il a lieu
7. Other provisions if any The attached Schedule "B" is incorporated in this form.	Autres dispositions, s'il y a lieu

8. The amalgamation has been approved pursuant to that section or subsection of the Act which is indicated as follows:	8. La fusion a été approuvée en accord avec l'article ou le paragraphe de la Loi indiqué ci-après.
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- x 183
- 184(1)
- 184(2)

9. Name of the amalgamating corporations Dénomination des sociétés fusionnantes	Corporation No. NE de la société	Signature	Date	Title Titre
Iron Springs Capital Corp.	•			
Kaboose Inc.	367935-7 (CBCA)			

## SCHEDULE "A"

### Attached to and forming part of the Articles of Amalgamation of KABOOSE INC.

#### THE CLASSES OF SHARES AND ANY MAXIMUM NUMBER OF SHARES THAT THE CORPORATION IS AUTHORIZED TO ISSUE ARE:

1. **An unlimited number of Common voting shares**, the holders of which are entitled:
  - (a) to receive notice of and to attend and vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote;
  - (b) to receive any dividend declared by the Corporation on this class of shares; provided that the Corporation shall be entitled to declare dividends on the Preferred shares, or on any of such classes of shares without being obliged to declare any dividends on the Common voting shares of the Corporation;
  - (c) subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, to receive the remaining property of the Corporation upon dissolution in equal rank with the holders of all other Common shares of the Corporation; and
  - (d) to the rights, privileges and restrictions normally attached to common shares.
2. **An unlimited number of Preferred shares**, which as a class, have attached thereto the following rights, privileges, restrictions and conditions:
  - (a) the Preferred shares may from time to time be issued in one or more series, and the Directors may fix from time to time before such issue the number of Preferred shares which is to comprise each series and the designation, rights, privileges, restrictions and conditions attaching to each series of Preferred shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provisions;
  - (b) the Preferred shares of each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of the assets of the Corporation amongst its shareholders for the purpose of winding up its affairs, be entitled to preference over the voting and non-voting Common shares and over any other shares of the Corporation ranking by their terms junior to the Preferred shares of that series. The Preferred shares of any series may also be given such other preferences, not inconsistent with these Articles, over the Common shares and any other such Preferred shares as may be fixed in accordance with clause (2)(a); and
  - (c) if any cumulative dividends or amounts payable on the return of capital in respect of a series of Preferred shares are not paid in full, all series of Preferred shares shall participate rateably in respect of accumulated dividends and return of capital.

## **SCHEDULE "B"**

### **Attached to and forming part of the Articles of Amalgamation of KABOOSE INC.**

#### **OTHER RULES OR PROVISIONS**

1. The directors may, between annual meetings, appoint one or more additional directors of the Corporation to serve until the next annual general meeting, but the number of additional directors shall not at any time exceed one-third (1/3) of the number of directors who held office at the expiration of the last annual meeting of the Corporation.
2. In addition to anywhere in Ontario, the Corporation is permitted to hold shareholders meetings in a city or at any location in any of the other provinces forming part of Canada.

**SCHEDULE B**

**By-Laws**

## **BY-LAW NO. 1**

A by-law relating generally  
to the transaction of the business  
and affairs of

### **KABOOSE INC.**

(hereinafter referred to as the “Corporation”)

#### **DIRECTORS AND OFFICERS**

1. **Calling of and Notice of Meetings** - Meetings of the board shall be held at such place and time and on such day as the chairman of the board, president, chief executive officer or a vice-president, if any, or any two directors may determine. Notice of meetings of the board shall be given to each director not less than 48 hours before the time when the meeting is to be held. Each newly elected board may without notice hold its first meeting for the purposes of organization and the appointment of officers immediately following the meeting of shareholders at which such board was elected.
2. **Quorum** - Subject to the residency requirements contained in the *Canada Business Corporations Act*, the quorum for the transaction of business at any meeting of the board shall consist of a majority of the number of directors or minimum number of directors required by the articles or such greater or lesser number of directors as the board may from time to time determine.
3. **Place of Meeting** - Meetings of the board may be held at any place in or outside Canada.
4. **Votes to Govern** - At all meetings of the board every question shall be decided by a majority of the votes cast on the question; and in case of an equality of votes the chairman of the meeting shall not be entitled to a second or casting vote.
5. **Audit Committee** - When required by the *Canada Business Corporation Act* the board shall, and at any other time the board may, appoint annually from among its number an Audit Committee to be composed of not fewer than three (3) directors of whom a majority shall not be officers or employees of the Corporation or its affiliates. The Audit Committee shall have the powers and duties provided in the *Canada Business Corporation Act* and any other powers delegated by the board.
6. **Interest of Directors and Officers Generally in Contracts** - No director or officer shall be disqualified by his office from contracting with the Corporation nor shall any contract or arrangement entered into by or on behalf of the Corporation with any director or officer or in which any director or officer is in any way interested be liable to be voided nor shall any director or officer so contracting or being so interested be liable to account to the Corporation for any profit realized by any such contract or arrangement by reason of such director or officer holding that office or of the fiduciary relationship thereby established; provided that the director or officer shall have complied with the provisions of the *Canada Business Corporations Act*.
7. **Appointment of Officers** - Subject to the articles and any unanimous shareholder agreement, the board may from time to time appoint a president, chief executive officer, chief financial officer, one or more vice-presidents (to which title may be added words indicating seniority or function), a secretary, a treasurer and such other officers as the board may determine, including one or more assistants to any of the officers so appointed. The board may specify the duties of and, in accordance with this by-law and subject to the provisions of the *Canada Business Corporations Act*, delegate to such officers powers to manage the business and affairs of the Corporation.

Subject to the provisions of this by-law, an officer may but need not be a director and one person may hold more than one office.

8. **Chairman of the Board** - The board may from time to time also appoint a chairman of the board who shall be a director. If appointed, the board may assign to him any of the powers and duties that are by any provisions of this by-law assigned to the managing director or to the president; and he shall, subject to the provisions of the *Canada Business Corporations Act*, have such other powers and duties as the board may specify. During the absence or disability of the chairman of the board, his duties shall be performed and his powers exercised by the managing director, if any, or by the president.
9. **Managing Director** - The board may from time to time appoint a managing director who shall be a resident Canadian and a director. If appointed, he shall have such powers and duties as the board may specify.
10. **President** - If appointed, the president shall be the chief operating officer and, subject to the authority of the board, shall have general supervision of the business of the Corporation; and he shall have such other powers and duties as the board may specify. During the absence or disability of the president, or if no president has been appointed, the managing director shall also have the powers and duties of that office.
11. **Vice-President** - A vice-president shall have such powers and duties as the board or the chief executive officer may specify.
12. **Secretary** - The secretary shall attend and be the secretary of all meetings of the board, shareholders and committees of the board and shall enter or cause to be entered in records kept for that purpose minutes of all proceedings thereat; he shall give or cause to be given, as and when instructed, all notices to shareholders, directors, officers, auditors and members of committees of the board; he shall be the custodian of the stamp or mechanical device generally used for affixing the corporate seal of the Corporation and of all books, papers, records, documents and instruments belonging to the Corporation, except when some other officer or agent has been appointed for that purpose; and he shall have such other powers and duties as the board or the chief executive officer may specify.
13. **Treasurer** - The treasurer shall keep proper accounting records in compliance with the *Canada Business Corporations Act* and shall be responsible for the deposit of money, the safekeeping of securities and the disbursement of the funds of the Corporation; he shall render to the board whenever required an account of all his transactions as treasurer and of the financial position of the Corporation; and he shall have such other powers and duties as the board or the chief executive officer may specify.
14. **Agents and Attorneys** - The board shall have the power from time to time to appoint agents and attorneys for the Corporation in or outside Canada with such powers as the board sees fit.

#### SHAREHOLDERS' MEETINGS

15. **Quorum** - Subject to the requirements of the *Canada Business Corporations Act*, the quorum for the transaction of business at any meeting of the shareholders shall consist of at least two persons holding or representing by proxy not less than five (5%) percent of the outstanding shares of the Corporation entitled to vote at the meeting.
16. **Votes to Govern** - At any meeting of shareholders, every question shall, unless otherwise required by the *Canada Business Corporations Act*, be determined by the majority of votes cast

on the question. In case of an equality of votes either upon a show of hands or upon a poll, the chairman of the meeting shall not be entitled to a second or casting vote.

17. **Show of Hands** - Subject to the provisions of the *Canada Business Corporations Act*, any question at a meeting of shareholders shall be decided by a show of hands unless a ballot thereon is required or demanded as hereinafter provided. Upon a show of hands every person who is present and entitled to vote shall have one vote. Whenever a vote by show of hands shall have been taken upon a question, unless a ballot thereon is so required or demanded, a declaration by the chairman of the meeting that the vote upon the question has been carried or carried by a particular majority or not carried and an entry to that effect in the minutes of the meeting shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against any resolution or other proceeding in respect of the said question, and the result of the vote so taken shall be the decision of the shareholders upon the said question.
18. **Ballots** - On any question proposed for consideration at a meeting of shareholders, and whether or not a show of hands has been taken thereon, any shareholder or proxyholder entitled to vote at the meeting may require or demand a ballot. A ballot so required or demanded shall be taken in such manner as the chairman shall direct. A requirement or demand for a ballot may be withdrawn at any time prior to the taking of the ballot. If a ballot is taken each person present shall be entitled, in respect of the shares which he is entitled to vote at the meeting upon the question, to that number of votes provided by the *Canada Business Corporations Act* or the articles, and the result of the ballot so taken shall be the decision of the shareholders upon the said question.

#### SHAREHOLDER MEETING BY ELECTRONIC MEANS

19. **Holding Meetings** - If a meeting of shareholders of the Corporation is called by the directors or shareholders of the Corporation pursuant to the *Canada Business Corporations Act*, such directors or shareholders calling the meeting may determine that the meeting shall be held, in accordance with the regulations, if any, entirely by means of a telephonic, electronic or other communication facility that permits all participants to communicate adequately with each other during the meeting. The Corporation is under no obligation to provide telephonic, electronic or other communication facility for any shareholder to participate in a meeting and the board may provide such telephonic, electronic or other communication facility in its sole and absolute discretion.
20. **Electronic Voting** - If the Corporation chooses to make available a telephonic, electronic or other communication facility, in accordance with the *Canada Business Corporations Act* and the regulations, that permits shareholders to vote by means of such facility then, notwithstanding any other provision of this by-law, any vote may be held, in accordance with the *Canada Business Corporations Act* and the regulations, entirely by means of such facility.

#### INDEMNIFICATION

21. **Indemnification of Directors and Officers** - The Corporation shall indemnify a director or officer of the Corporation, a former director or officer of the Corporation or a person who acts or acted at the Corporation's request as a director or officer of a body corporate of which the Corporation is or was a shareholder or creditor, and his heirs and legal representatives to the extent permitted by the *Canada Business Corporations Act*.
22. **Indemnity of Others** - Except as otherwise required by the *Canada Business Corporations Act* and subject to paragraph 22, the Corporation may from time to time indemnify and save harmless any person who was or is a party or is threatened to be made a party to any threatened, pending or contemplated action, suit or proceeding, whether civil, criminal, administrative or investigative

(other than an action by or in the right of the Corporation) by reason of the fact that he is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, agent of or participant in another body corporate, partnership, joint venture, trust or other enterprise, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted honestly and in good faith with a view to the best interests of the Corporation and, with respect to any criminal or administrative action or proceeding that is enforced by a monetary penalty, had reasonable grounds for believing that his conduct was lawful. The termination of any action, suit or proceeding by judgment, order, settlement or conviction shall not, of itself, create a presumption that the person did not act honestly and in good faith with a view to the best interests of the Corporation and, with respect to any criminal or administrative action or proceeding that is enforced by a monetary penalty, had no reasonable grounds for believing that his conduct was lawful.

23. **Right of Indemnity Not Exclusive** - The provisions for indemnification contained in the by-laws of the Corporation shall not be deemed exclusive of any other rights to which any person seeking indemnification may be entitled under any agreement, vote of shareholders or directors or otherwise, both as to action in his official capacity and as to action in another capacity, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs and legal representatives of such a person.
24. **No Liability of Directors or Officers for Certain Matters** - To the extent permitted by law, no director or officer for the time being of the Corporation shall be liable for the acts, receipts, neglects or defaults of any other director or officer or employee or for joining in any receipt or act for conformity or for any loss, damage or expense happening to the Corporation through the insufficiency or deficiency of title to any property acquired by the Corporation or for or on behalf of the Corporation or for the insufficiency or deficiency of any security in or upon which any of the moneys of or belonging to the Corporation shall be placed out or invested or for any loss or damage arising from the bankruptcy, insolvency or tortious act of any person, firm or body corporate with whom or which any moneys, securities or other assets belonging to the Corporation shall be lodged or deposited or for any loss, conversion, misapplication or misappropriation of or any damage resulting from any dealings with any moneys, securities or other assets belonging to the Corporation or for any other loss, damage or misfortune whatever which may happen in the execution of the duties of his respective office or trust or in relation thereto unless the same shall happen by or through his failure to act honestly and in good faith with a view to the best interests of the Corporation and in connection therewith to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. If any director or officer of the Corporation shall be employed by or shall perform services for the Corporation otherwise than as a director or officer or shall be a member of a firm or a shareholder, director or officer of a body corporate which is employed by or performs services for the Corporation, the fact of his being a director or officer of the Corporation shall not disentitle such director or officer or such firm or body corporate, as the case may be, from receiving proper remuneration for such services.

#### **DIVIDENDS**

25. **Dividends** - Subject to the provisions of the *Canada Business Corporations Act*, the board may from time to time declare dividends payable to the shareholders according to their respective rights and interests in the Corporation. Dividends may be paid in money or property or by issuing fully paid shares of the Corporation.
26. **Dividend Cheques** - A dividend payable in cash shall be paid by cheque drawn on the Corporation's bankers or one of them to the order of each registered holder of shares of the class or series in respect of which it has been declared and mailed by prepaid ordinary mail to such



registered holder at his recorded address, unless such holder otherwise directs. In the case of joint holders the cheque shall, unless such joint holders otherwise direct, be made payable to the order of all of such joint holders and mailed to them at their recorded address. The mailing of such cheque as aforesaid, unless the same is not paid on due presentation, shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

27. **Non-Receipt of Cheques** - In the event of non-receipt of any dividend cheque by the person to whom it is sent as aforesaid, the Corporation shall issue to such person a replacement cheque for a like amount on such terms as to indemnity, reimbursement of expenses and evidence of non-receipt and of title as the board may from time to time prescribe, whether generally or in any particular case.
28. **Unclaimed Dividends** - Any dividend unclaimed after a period of 6 years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

#### **BANKING ARRANGEMENTS, CONTRACTS, DIVISIONS, ETC.**

29. **Banking Arrangements** - The banking business of the Corporation, or any part thereof, shall be transacted with such banks, trust companies or other financial institutions as the board may designate, appoint or authorize from time to time by resolution and all such banking business, or any part thereof, shall be transacted on the Corporation's behalf by such one or more officers and/or other persons as the board may designate, direct or authorize from time to time by resolution and to the extent therein provided.
30. **Execution of Instruments** - Contracts, documents or instruments in writing requiring execution by the Corporation may be signed by any one director or officer and all contracts, documents or instruments in writing so signed shall be binding upon the Corporation without any further authorization or formality. The board is authorized from time to time by resolution to appoint any officer or officers or any other person or persons on behalf of the Corporation to sign and deliver either contracts, documents or instruments in writing generally or to sign either manually or by facsimile signature and/or counterpart signature and deliver specific contracts, documents or instruments in writing. The term "contracts, documents or instruments in writing" as used in this by-law shall include deeds, mortgages, charges, conveyances, powers of attorney, transfers and assignments of property of all kinds (including specifically, but without limitation, transfers and assignments of shares, warrants, bonds, debentures or other securities), share certificates, warrants, bonds, debentures and other securities or security instruments of the Corporation and all paper writings.
31. **Voting Rights in Other Bodies Corporate** - The signing officers of the Corporation may execute and deliver proxies and arrange for the issuance of voting certificates or other evidence of the right to exercise the voting rights attaching to any securities held by the Corporation. Such instruments shall be in favour of such persons as may be determined by the officers executing or arranging for the same. In addition, the board may from time to time direct the manner in which and the persons by whom any particular voting rights or class of voting rights may or shall be exercised.
32. **Creation and Consolidation of Divisions** - The board may cause the business and operations of the Corporation or any part thereof to be divided or to be segregated into one or more divisions upon such basis, including without limitation, character or type of operation, geographical territory, product manufactured or service rendered, as the board may consider appropriate in each case. The board may also cause the business and operations of any such division to be further divided into sub-units and the business and operations of any such divisions or sub-units to be consolidated upon such basis as the board may consider appropriate in each case.

33. **Name of Division** - Any division or its sub-units may be designated by such name as the board may from time to time determine and may transact business, enter into contracts, sign cheques and other documents of any kind and do all acts and things under such name. Any such contracts, cheque or document shall be binding upon the Corporation as if it had been entered into or signed in the name of the Corporation.
34. **Officers of Divisions** - From time to time the board or a person designated by the board, may appoint one or more officers for any division, prescribe their powers and duties and settle their terms of employment and remuneration. The board or a person designated by the board, may remove at its or his pleasure any officer so appointed, without prejudice to such officers rights under any employment contract. Officers of divisions or their sub-units shall not, as such, be officers of the Corporation.

#### MISCELLANEOUS

35. **Invalidity of Any Provisions of This By-Law** - The invalidity or unenforceability of any provision of this by-law shall not affect the validity or enforceability of the remaining provisions of this by-law.
36. **Omissions and Errors** - The accidental omission to give any notice to any shareholder, director, officer or auditor or the non-receipt of any notice by any shareholder, director, officer or auditor or any error in any notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice or otherwise founded thereon.

#### INTERPRETATION

37. **Interpretation** - In this by-law and all other by-laws of the Corporation words importing the singular number only shall include the plural and vice versa; words importing the masculine gender shall include the feminine and neuter genders; words importing persons shall include an individual, partnership, association, body corporate, executor, administrator or legal representative and any number or aggregate of persons; "articles" include the original or restated articles of incorporation, articles of amendment, articles of amalgamation, articles of continuance, articles of reorganization, articles of arrangement and articles of revival; "board" shall mean the board of directors of the Corporation; "*Canada Business Corporations Act*" shall mean the ***Canada Business Corporations Act***, as amended from time to time, or any Act that may hereafter be substituted therefor; "meeting of shareholders" shall mean and include an annual meeting of shareholders and a special meeting of shareholders of the Corporation; and "signing officers" means any person authorized to sign on behalf of the Corporation pursuant to paragraph 30.

**SCHEDULE 2**  
**FINANCIAL STATEMENTS OF IRON SPRINGS CAPITAL CORP.**

**AUDITORS' CONSENT**

We have read the information circular of Iron Springs Capital Corp. (the "Company") dated October 17, 2005 relating to the acquisition of 100% of the issued and outstanding securities of Kaboose, Inc. by the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above mentioned information circular of our report to the directors of the Company on the balance sheet of the Company as at April 30, 2005 and the statements of operations and deficit and cash flows for the period from incorporation on March 15, 2005 to April 30, 2005. Our report is dated May 1, 2005 (except as to Note 7 which is as of June 17, 2005).

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

October 17, 2005

A Member of *SC INTERNATIONAL*

Interim Financial Statements of

**IRON SPRINGS CAPITAL CORP.**

For the three months ended July 31, 2005  
*(Unaudited - Prepared by Management)*

# IRON SPRINGS CAPITAL CORP.

## Balance Sheets

(Unaudited - Prepared by Management)

	July 31	April 30
	2005	2005
<b>ASSETS</b>		
Current assets:		
Cash	\$ 372,913	\$ 140,000
Prepaid expenses	3,537	-
	<u>\$ 376,450</u>	<u>\$ 140,000</u>

## LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable and accrued liabilities	\$ 19,627	\$ 2,500
Shareholders' equity:		
Share capital (Note 4)	349,212	140,000
Contributed surplus (Note 4)	41,720	-
Deficit	(34,109)	(2,500)
	<u>356,823</u>	<u>137,500</u>
	<u>\$ 376,450</u>	<u>\$ 140,000</u>

Subsequent event (Note 6)

Approved by the Board of Directors:

Signed: "K. Peter Miller" Director

Signed: "A. Murray Sinclair" Director

## IRON SPRINGS CAPITAL CORP.

### Statement of Operations and Deficit

For the three months ended July 31, 2005

*(Unaudited - Prepared by Management)*

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Expenses:		
Legal fees	\$	1,369
Office and sundry		614
Shareholder information		120
Stock-based compensation		25,850
Transfer agent, listing and filing fees		4,697
		<hr/>
		32,650
Interest income		(1,041)
		<hr/>
Loss for the period		31,609
		<hr/>
Deficit, beginning of period		2,500
		<hr/>
Deficit, end of period	\$	34,109
		<hr/>
Basic and diluted loss per share	\$	(0.10)
		<hr/>
Weighted average number of common shares outstanding		313,043
		<hr/>

There are no comparative figures for 2004 because the Company was incorporated on March 15, 2005.

# IRON SPRINGS CAPITAL CORP.

## Statement of Cash Flows

For the three months ended July 31, 2005

*(Unaudited - Prepared by Management)*

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Cash provided by (used for):	
Operating activities:	
Loss for the period	\$ (31,609)
Items not involving cash	
Stock-based compensation	25,850
Changes in non-cash working capital balances:	
Prepaid expenses	(3,537)
Accounts payable and accrued liabilities	17,127
	<hr/>
	7,831
Financing activities:	
Shares issued for cash	300,000
Share issuance costs	(74,918)
	<hr/>
	225,082
Increase in cash	232,913
Cash, beginning of period	140,000
	<hr/>
Cash, end of period	\$ 372,913
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Supplementary cash flow information:	
Cash amount of payments received (made):	
Interest received	\$ 1,041
Non-cash financing and investing activities:	
Fair value of stock options granted to agents	15,870

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There are no comparative figures for 2004 because the Company was incorporated on March 15, 2005.



**IRON SPRINGS CAPITAL CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
JULY 31, 2005  
(Unaudited – Prepared by Management)

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**1. INCORPORATION**

The Company was incorporated under the Business Corporations Act (Alberta) on March 15, 2005 and is classified as a Capital Pool Company as defined in the TSX Venture Exchange (“Exchange”) Policy 2.4. The principal business of the Company is the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities.

**2. CONTINUANCE OF OPERATIONS**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

The Company’s continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, all adjustments (consisting of normal and recurring accruals) considered necessary for fair presentation have been included. Operating results for the three months ending July 31, 2005 are not necessarily indicative of the results that may be expected for the year ended April 30, 2006.

The interim financial statements have been prepared by management in accordance with the accounting policies described in the Company’s financial statements for the period from incorporation on March 15, 2005 to April 30, 2005. For further information, refer to the financial statements and footnotes thereto included for the period from incorporation on March 15, 2005 to April 30, 2005.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**IRON SPRINGS CAPITAL CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
JULY 31, 2005  
(Unaudited – Prepared by Management)

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

**Stock-based compensation**

The Company uses the fair value based method for measuring compensation costs.

**4. CAPITAL STOCK**

	Number of Shares	Amount
Authorized		
Unlimited common shares, without par value		
Issued		
Balance – April 30, 2005	1,120,000	\$ 140,000
Shares issued for cash	1,200,000	300,000
Share issuance costs	-	(90,788)
As at July 31, 2005	2,320,000	\$ 349,212

On July 7, 2005, the Company completed an initial public offering of 1,200,000 common shares at \$0.25 per share for gross proceeds of \$300,000. The Company's common shares began trading on the Exchange on July 13, 2005. In connection with this offering, the agent was granted an option to purchase up to 100,000 common shares at a price of \$0.25 per share for a period of two years from July 13, 2005. The fair value of these agents' options are included in the share issuance costs. Concurrent with this offering, the directors and officers of the Company were granted options to purchase up to 150,000 common shares at a price of \$0.25 per share until July 7, 2010.

**Share purchase options:**

Options outstanding at July 31, 2005:

Expiry Date	Exercise price	Balance, April 30, 2005	Granted	Expired/ Cancelled	Balance, July 31, 2005
July 7, 2010	\$0.25	--	150,000	--	150,000
July 13, 2007	\$0.25	--	100,000	--	100,000
		--	250,000	--	250,000
Weighted average exercise price		--	\$0.25	--	\$0.25

**IRON SPRINGS CAPITAL CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
JULY 31, 2005  
(Unaudited – Prepared by Management)

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**4. CAPITAL STOCK (cont'd...)**

Effective July 7, 2005, the Company granted 150,000 options to directors, exercisable on or before July 7, 2010 at a price of \$0.25 per share. With respect to these options, the Company recorded a corresponding stock-based compensation expense of \$25,850 during the current quarter.

In connection with the initial public offering, the Company granted 100,000 agent's options exercisable on or before July 13, 2007 at a price of \$0.25 per share. With respect to the agent's options, the Company recorded a corresponding stock-based compensation charge of \$15,870 during the current quarter.

The following assumptions were used for the Black-Scholes valuation of these stock options granted:

Risk free interest rate	3.07 - 3.11%
Annual dividends	--
Expected stock price volatility	125%
Expected life	2 years to 2.5 years

**Escrowed shares:**

Of the issued and outstanding common shares, 1,120,000 are held in escrow pursuant to the requirements of the Exchange to be released as to 10% thereof on the completion of the Company's qualifying transaction and as to 15% thereof on each of the 6<sup>th</sup>, 12<sup>th</sup>, 18<sup>th</sup>, 24<sup>th</sup>, 30<sup>th</sup> and 36<sup>th</sup> months following the initial release.

**5. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

**6. SUBSEQUENT EVENT**

On August 11, 2005 the Company entered into a Letter of Intent for the acquisition of 100% of the issued and outstanding securities of Kaboose Inc. ("Kaboose") by issuing up to approximately 56.3 million common shares. It is the Company's intention that the proposed acquisition of Kaboose satisfy the requirements of a "Qualifying Transaction" as defined by the Exchange Policy 2.4. Upon completion of the proposed acquisition, it is expected that the resulting issuer will be a Tier 2 Technology Issuer, and will be an online media company focused on the kids and family market. Completion of the Qualifying Transaction is subject to a number of conditions including but not limited to, Exchange acceptance and shareholder approval.

**IRON SPRINGS CAPITAL CORP.**

**FINANCIAL STATEMENTS**

**APRIL 30, 2005**

## AUDITORS' REPORT

To the Directors of  
Iron Springs Capital Corp.

We have audited the balance sheet of Iron Springs Capital Corp. as at April 30, 2005 and the statements of operations and deficit and cash flows for the period from incorporation on March 15, 2005 to April 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2005 and the results of its operations and its cash flows for the period from incorporation on March 15, 2005 to April 30, 2005 in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON & COMPANY”**

Vancouver, Canada  
May 1, 2005  
(except as to Note 7, which  
is as of June 17, 2005)

Chartered Accountants

A Member of *SC INTERNATIONAL*

**IRON SPRINGS CAPITAL CORP.**  
BALANCE SHEET  
AS AT APRIL 30, 2005

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**ASSETS**

**Current**

Cash

\$ 140,000

\$ 140,000

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**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current**

Accounts payable and accrued liabilities

\$ 2,500

**Shareholders' equity**

Capital stock (Note 4)

140,000

Deficit

(2,500)

137,500

\$ 140,000

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**Continuance of operations** (Note 2)

**Subsequent event** (Note 7)

**On behalf of the Board:**

"K. Peter Miller"

Director

"A. Murray Sinclair"

Director

The accompanying notes are an integral part of these financial statements.

**IRON SPRINGS CAPITAL CORP.**  
STATEMENT OF OPERATIONS AND DEFICIT  
PERIOD FROM INCORPORATION ON MARCH 15, 2005 TO APRIL 30, 2005

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<b>EXPENSES</b>	
Professional fees	\$ (2,500)
<b>Loss, being deficit end of period</b>	<b>\$ (2,500)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding</b>	<b>-</b>

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The accompanying notes are an integral part of these financial statements.

**IRON SPRINGS CAPITAL CORP.**  
STATEMENT OF CASH FLOWS  
PERIOD FROM INCORPORATION ON MARCH 15, 2005 TO APRIL 30, 2005

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Loss for the period	\$ (2,500)
Changes in non-cash working capital item	
Increase in accounts payable and accrued liabilities	<u>2,500</u>
Net cash used in operating activities	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Capital stock issued for cash	<u>140,000</u>
Net cash provided by financing activities	<u>140,000</u>
<b>Change in cash for the period</b>	140,000
<b>Cash, beginning of period</b>	<u>-</u>
<b>Cash, end of period</b>	<u>\$ 140,000</u>
<hr/> <hr/>	
<b>Cash paid during the period for interest</b>	\$ -
<hr/>	
<b>Cash paid during the period for income taxes</b>	\$ -
<hr/>	

There were no significant non-cash financing or investing transactions for the period ended April 30, 2005.

The accompanying notes are an integral part of these financial statements.



**1. INCORPORATION**

The Company was incorporated under the Business Corporations Act (Alberta) on March 15, 2005 and is classified as a Capital Pool Company as defined in the TSX Venture Exchange ("TSX-V") Policy 2.4. The principal business of the Company is the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities.

**2. CONTINUANCE OF OPERATIONS**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

The Company's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses. Such an acquisition will be subject to regulatory approval and may be subject to shareholder approval.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. The shares outstanding as of April 30, 2005 have been excluded from the weighted average number of shares because they are contingently returnable.

**IRON SPRINGS CAPITAL CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
APRIL 30, 2005

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Stock-based compensation**

The Company uses the fair value based method for measuring compensation costs.

**4. CAPITAL STOCK**

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	Number of Shares	Amount
Authorized		
Unlimited common shares, without par value		
Issued		
Shares issued for cash	1,120,000	\$ 140,000
As at April 30, 2005	1,120,000	\$ 140,000

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During the period ended April 30, 2005, the Company issued 1,120,000 common shares at a price of \$0.125 per common share for total proceeds of \$140,000. These common shares will be held in escrow and will be released pro-rata to the shareholders as to 10% of the escrow shares upon issuance of notice of final acceptance of a Qualifying Transaction by the TSX-V and as to the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. These escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the regulatory authorities.

**5. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

**6. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

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Loss for the period	\$	(2,500)
Expected income tax-recovery	\$	(890)
Unrecognized benefit of non-capital losses		890
Total income tax recovery	\$	-

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**IRON SPRINGS CAPITAL CORP.**  
NOTES TO THE FINANCIAL STATEMENTS  
APRIL 30, 2005

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**6. INCOME TAXES (cont'd...)**

The significant components of the Company's future income taxes assets are as follows:

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Future income tax assets:		
Non-capital loss carryforwards	\$	890
Valuation allowance		<u>(890)</u>
Net future income tax assets	\$	<u>-</u>

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The Company has available for deduction against future taxable income non-capital losses of approximately \$2,500. These losses, if not utilized, will expire in 2015. Future tax benefits which may arise as a result of these non-capital losses have not been recognized in these financial statements and have been offset by a valuation allowance due to the uncertainty of their realization.

**7. SUBSEQUENT EVENT**

The Company is in the process of filing a prospectus with the British Columbia, Alberta and Ontario Securities Commissions offering 1,200,000 common shares at \$0.25 per share as an initial public offering. Pursuant to an Agency Agreement with Haywood Securities Inc. (the "Agent"), the Agent will receive a commission of 7.5% of the gross proceeds, be paid a corporate finance fee of \$7,500, and be issued an option to acquire 100,000 common shares at \$0.25 per share exercisable for a period of 24 months from the date the shares commence trading on the TSX-V. In addition, the prospectus will also qualify for distribution options to acquire 150,000 common shares at a price of \$0.25 per common share for a period of 5 years from the date of grant, to directors and officers. The cost of the initial public offering excluding the Agent's commission is estimated to be a total of \$40,000. The proposed transaction is subject to regulatory approval.

**SCHEDULE 3**  
**FINANCIAL STATEMENTS OF KABOOSE INC.**

# HARENDORF, LEBANE, MOSS LLP

CHARTERED ACCOUNTANTS

IRVIN W. HARENDORF, C.A.  
MAURICE A. MOSS, B. COMM., C.A.  
JEFF S. AMBROSE, HONS. B.A., C.A.

HERBERT G. LEBANE, C.A.  
CONSULTANT TO THE FIRM

## AUDITORS' CONSENT

We have read the information circular (the "Circular") of Iron Springs Capital Corporation ("Iron Springs") dated October 17, 2005 relating to Iron Springs's proposed amalgamation with Kaboose Inc. (the "Company"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the Circular of our audit report dated March 28, 2005, except as to note 20 and note 21, which are dated June 23, 2005 and September 27, 2005, respectively, to the Company's directors and shareholders on the following financial statements:

Balance sheets as at December 31, 2004, 2003 and 2002;

Statements of income, deficit and cash flows for each of the years in the three-year period ended December 31, 2004.

Any use that a third party makes of this consent, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this consent.

*Harendorf, Lebane, Moss* LLP

Markham, Ontario, Canada  
October 17, 2005

**HARENDORF, LEBANE, MOSS** LLP  
Chartered Accountants

# HARENDORF, LEBANE, MOSS <sup>LLP</sup>

CHARTERED ACCOUNTANTS

IRVIN W. HARENDORF, C.A.  
MAURICE A. MOSS, B. COMM., C.A.  
JEFF S. AMBROSE, HONS. B.A., C.A.

HERBERT G. LEBANE, C.A.  
CONSULTANT TO THE FIRM

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## AUDITORS' CONSENT

We have read the information circular (the "Circular") of Iron Springs Capital Corporation ("Iron Springs") dated October 17, 2005 relating to Iron Springs's proposed amalgamation with Kaboose Inc. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the Circular of our audit report dated May 9, 2005 to the directors and shareholders of Birthday in a Box, Inc. on the following financial statements:

Balance sheet as at December 31, 2004;

Statement of income, deficit and cash flow the year ended December 31, 2004.

Any use that a third party makes of this consent, or any reliance or decisions made based on it, are the responsibility of such third parties. We accept no responsibility for loss or damages, if any, suffered by any third party as a result of decisions made or actions taken based on this consent.

*Harendorf, Lebane, Moss* LLP

Markham, Ontario, Canada  
October 17, 2005

**HARENDORF, LEBANE, MOSS** LLP  
Chartered Accountants

# **HARENDORF, LEBANE, MOSS** LLP

**CHARTERED ACCOUNTANTS**

IRVIN W. HARENDORF, C.A.  
MAURICE A. MOSS, B. COMM., C.A.  
JEFF S. AMBROSE, HONS. B.A., C.A.

HERBERT G. LEBANE, C.A.  
CONSULTANT TO THE FIRM

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**KABOOSE INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2005**

**(UNAUDITED)**

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**KABOOSE INC.**  
**(Incorporated under the laws of Ontario)**

**INTERIM CONSOLIDATED BALANCE SHEET**

**AS AT JUNE 30, 2005**

**(UNAUDITED)**

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 4,512,261	\$ 1,584,958
Accounts receivable	711,086	895,737
Inventory	214,512	-
Prepaid expenses and sundry assets	<u>72,822</u>	<u>76,590</u>
	5,510,681	2,557,285
<b>Property, plant and equipment</b> (Note 4)	405,134	373,043
<b>Development costs</b> (Note 5)	218,547	255,348
<b>Goodwill</b> (Note 3)	531,449	-
<b>Other assets</b> (Note 6)	<u>132,049</u>	<u>142,343</u>
	<b><u>\$ 6,797,860</u></b>	<b><u>\$ 3,328,019</u></b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 671,548	\$ 272,416
Dividends payable (Note 7)	117,252	-
Note payable (Note 8)	87,537	119,047
Deferred revenue	<u>60,457</u>	<u>76,766</u>
	<u>936,794</u>	<u>468,229</u>
<b>Long-term</b>		
Convertible retractable preference shares (Note 7)	2,671,529	2,582,205
Notes payable (Note 8)	<u>109,030</u>	<u>79,365</u>
	<u>2,780,559</u>	<u>2,661,570</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock and other equity</b> (Note 9)	8,159,136	3,675,599
<b>Deficit</b>	<u>(5,078,629)</u>	<u>(3,477,379)</u>
	<u>3,080,507</u>	<u>198,220</u>
	<b><u>\$ 6,797,860</u></b>	<b><u>\$ 3,328,019</u></b>

*The accompanying Notes are an integral part of these financial statements.*



**KABOOSE INC.****INTERIM CONSOLIDATED STATEMENT OF INCOME AND DEFICIT****SIX MONTH PERIOD ENDED JUNE 30, 2005****(UNAUDITED)**

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	<b>June 30, <u>2005</u></b>	<b>June 30, <u>2004</u></b>
<b>Revenues</b>	\$ 2,333,181	\$ 1,003,221
<b>Cost of goods sold</b>	<u>423,099</u>	<u>-</u>
<b>Gross profit</b>	<u>1,910,082</u>	<u>1,003,221</u>
<b>Expenses</b>		
Selling, operating and administrative	3,113,834	1,396,743
Interest on convertible debentures	-	128,308
Interest on convertible retractable preference shares (Note 7)	206,576	-
Other interest	7,869	-
Amortization	<u>183,053</u>	<u>54,863</u>
	<u>3,511,332</u>	<u>1,579,914</u>
<b>Net loss</b>	(1,601,250)	(576,693)
<b>Deficit, beginning of period</b>	<u>(3,477,379)</u>	<u>(2,129,360)</u>
<b>Deficit, end of period</b>	<b><u>\$ (5,078,629)</u></b>	<b><u>\$ (2,706,053)</u></b>

*The accompanying Notes are an integral part of these financial statements.*

**KABOOSE INC.****INTERIM CONSOLIDATED CASH FLOW STATEMENT****SIX MONTH PERIOD ENDED JUNE 30, 2005****(UNAUDITED)**

	<b>June 30, 2005</b>	<b>June 30, 2004</b>
<b>Cash and cash equivalents provided by (used in):</b>		
<b>Operating activities</b>		
Net loss	\$ (1,601,250)	\$ (576,693)
Adjustment for non-cash items:		
Amortization	183,053	54,863
Stock-based compensation costs (Note 10)	75,340	32,326
Unrealized foreign exchange (gain) loss	3,697	-
Imputed interest on convertible retractable preference shares (Note 7)	89,324	-
Interest on convertible debentures	-	128,308
Net change in non-cash working capital (Note 16)	<u>142,425</u>	<u>(123,152)</u>
	<u>(1,107,411)</u>	<u>(484,348)</u>
<b>Investing activities</b>		
Property, plant and equipment	(64,004)	(80,304)
Development costs	(6,795)	-
Other assets	(8,650)	-
Business combination (Note 3)	<u>(271,080)</u>	<u>-</u>
	<u>(350,529)</u>	<u>(80,304)</u>
<b>Financing activities</b>		
Notes payable	(22,864)	-
Convertible retractable preference shares (Note 7)	-	3,350,001
Special warrants (Note 9 (a))	4,408,107	-
Convertible debentures	<u>-</u>	<u>57,417</u>
	<u>4,385,243</u>	<u>3,407,418</u>
<b>Cash and cash equivalents increase</b>	2,927,303	2,842,766
<b>Cash and cash equivalents, beginning of period</b>	<u>1,584,958</u>	<u>40,380</u>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 4,512,261</u></b>	<b><u>\$ 2,883,146</u></b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	<u>\$ 7,869</u>	<u>\$ -</u>

*The accompanying Notes are an integral part of these financial statements.*

# KABOOSE INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

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### 1. Nature of business

Kaboose Inc. ("Kaboose") is an on-line advertising, media and commerce company focused on kids and families. The Company operates the Kaboose Network which is comprised of Funschool.com, Zeeks.com, KidsDomain.com and Campsearch.com, as well as the Birthdayinbox.com website.

The company's revenues are generated primarily from advertising on the Kaboose Network and sales of birthday party supplies on the Birthdayinbox.com website.

### 2. Summary of significant accounting policies

The unaudited interim consolidated financial statements of Kaboose Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles using the same basis of presentation and accounting policies as outlined in Note 2 to the audited annual financial statements for the fiscal year ended December 31, 2004. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited financial statements and notes for the year ended December 31, 2004. The financial statements and note disclosures are expressed in Canadian dollars unless otherwise indicated. The disclosures provided below are incremental to those included with the audited annual financial statements.

#### (a) Basis of Presentation and consolidation

The interim consolidated financial statements include the accounts of the Company, together with its wholly owned subsidiary, Kaboose Holdings LLC and its wholly owned subsidiaries, Kaboose Com Inc., and Kaboose Services Inc. All intercompany transactions and balances have been eliminated.

#### (b) Revenue Recognition

Advertising revenue recognition commences from the time advertisements are posted on the websites and is based on the number of impressions or hits generated through each advertisement on a monthly basis.

Yearly fees are charged for use of the Campsearch.com site. These fees are deferred and recognized on a monthly basis.

Sales of party supplies are recognized upon the shipment of goods to customers when collectibility of proceeds is reasonably assured. The company deducts from gross sales all sales discounts, returns and allowances.

# KABOOSE INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

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(c) Inventory

Inventory is comprised of purchased merchandise that is valued at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

(d) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Company enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill as determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any. Management has not conducted an impairment test as of the six month period ended June 30, 2005.

(e) Foreign Currency Translation

Monetary assets and liabilities of Canadian and integrated foreign operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at each year end date. Non-monetary assets and liabilities denominated in foreign currencies are translated at their historical exchange rates. Exchange gains or losses arising from the translation of the monetary balances denominated in foreign currencies are recognized in earnings. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at the average exchange rates for the year, except for amortization, which is translated at the same rates as those used in translation of the corresponding assets.

# KABOOSE INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

### 3. Business combination

On February 3, 2005, the Company incorporated three entities under the laws of the State of Delaware. The newly-formed companies are its wholly-owned subsidiary, Kaboose Holdings LLC ("Holdings"), and its two wholly owned subsidiaries, Kaboose Com Inc. ("Kaboose Com") and Kaboose Services Inc. ("Services"). On February 25, 2005, Kaboose Com completed the acquisition of the majority of the assets of Birthday-in-a-box, Inc (BIAB). The effective date of the acquisition was January 1, 2005 under the terms of the agreement. The purchase price was satisfied through payment of cash in the amount of \$ 271,080 (USD \$ 225,000), an assumption of liabilities of \$ 499,992 (USD \$ 415,000), plus additional liabilities assumed in the amount of \$ 21,489 (USD \$ 17,836) giving a total acquisition cost of \$ 792,561 (USD \$ 657,836). This combination has been recorded under the purchase method of accounting, with the results of operations of the acquired business being included in the accompanying interim consolidated financial statements since January 1, 2005.

The assets acquired and liabilities assumed at fair value, as at January 1, 2005 are as follows:

Inventory - purchased merchandise	\$ 183,966
Website	46,480
Equipment, net of obligation under capital lease (\$ 17,023)	25,097
Other current assets	5,569
Goodwill	<u>531,449</u>
	792,561
Current liabilities	<u>521,481</u>
Cash consideration	<u>\$ 271,080</u>

### 4. Property, plant and equipment

	<u>June 30,</u> <u>2005</u>			<u>December 31,</u> <u>2004</u>
	<u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u>	<u>Net</u>
Office equipment	\$ 104,287	\$ 19,286	\$ 85,001	\$ 39,582
Computer equipment	169,458	52,617	116,841	89,098
Computer software	362,275	167,963	194,312	230,698
Leasehold improvements	<u>18,740</u>	<u>9,760</u>	<u>8,980</u>	<u>13,665</u>
	<u>\$ 654,760</u>	<u>\$ 249,626</u>	<u>\$ 405,134</u>	<u>\$ 373,043</u>

Amortization expense related to property, plant and equipment amounted to \$ 74,033 (June, 2004 - \$7,823).

# KABOOSE INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

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### 5. Development costs

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Balance, January 1	\$ 255,348	\$ -
Additions	6,795	255,348
Amortization	<u>(43,596)</u>	<u>-</u>
Balance, June 30, 2005	<b><u>\$ 218,547</u></b>	<b><u>\$ 255,348</u></b>

During 2004, the company undertook the development of a proprietary search engine called Kaboose Search. The search engine was launched on January 1, 2005. The product is developed specifically for children and their parents. These costs are being amortized on a straight line basis over three years. Development costs expensed for the current period are \$ NIL (2004 - \$ NIL).

The company has filed a Scientific Research and Development investment tax credit claim for the development costs incurred in 2004. The expected investment tax credit net of the claim preparation cost is \$ 34,199. This amount has not been recognized in these interim consolidated financial statements since the claim has yet to be processed or approved by the federal government.

### 6. Other assets

	<b>June 30, 2005</b>			<b>December 31, 2004</b>
	<b><u>Cost</u></b>	<b><u>Accumulated Amortization</u></b>	<b><u>Net</u></b>	<b><u>Net</u></b>
Websites	\$ 378,085	\$ 273,769	\$ 104,316	\$ 121,789
Trademarks	<u>33,149</u>	<u>5,416</u>	<u>27,733</u>	<u>20,554</u>
	<b><u>\$ 411,234</u></b>	<b><u>\$ 279,185</u></b>	<b><u>\$ 132,049</u></b>	<b><u>\$ 142,343</u></b>

Amortization expense related to intangible assets amounted to \$ 65,424 (June, 2004 - \$ 47,040).

# KABOOSE INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

### 7. Convertible retractable preference shares

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Opening balance, face value	\$ 3,350,001	\$ -
Issuance of convertible retractable preference shares	-	3,350,001
Accumulated imputed interest, net of dividends paid or payable	180,845	91,521
Equity portion	<u>(859,317)</u>	<u>(859,317)</u>
	<b><u>\$ 2,671,529</u></b>	<b><u>\$ 2,582,205</u></b>

Summary of interest expense on convertible retractable preference shares:

	<b>June 30, 2005</b>	<b>June 30, 2004</b>
Dividends payable, deemed as interest	\$ 117,252	\$ -
Imputed interest, net of dividends payable	<u>89,324</u>	<u>-</u>
	<b><u>\$ 206,576</u></b>	<b><u>\$ -</u></b>

### 8. Notes payable

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Promissory note payable	\$ 184,237	\$ 198,412
Obligations under capital lease	<u>12,330</u>	<u>-</u>
	196,567	198,412
Less current portion	<u>(87,537)</u>	<u>(119,047)</u>
Notes payable - long term	<b><u>\$ 109,030</u></b>	<b><u>\$ 79,365</u></b>

The promissory note payable of \$ 184,237 (USD \$150,324) is related to the acquisition of assets of Kyle Waxman in 2004. This note payable represents the contingent consideration outstanding per the purchase agreement. The note is interest free, payable on an earn-out basis over the 24 month period following September 1, 2004.

Obligations under capital lease bear interest at an average rate of approximately 9% per annum and monthly payments including interest are \$ 1,161 (USD \$ 945). The equipment under capital lease has a net book value of \$ 18,300 (USD \$ 15,189) and is pledged as security.

**KABOOSE INC.****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2005****(UNAUDITED)****9. Capital stock and other equity**

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
Issued:		
1,777,443 Common shares	\$ 424,292	\$ 424,292
4,376,489 Preferred Class "A" shares	2,105,174	2,105,174
4,466,670 Preferred Class "B" shares, equity portion	859,317	859,317
Contributed surplus	362,156	286,816
3,548,241 Special warrants (Note 9 (a))	<u>4,408,197</u>	<u>-</u>
	<b><u>\$ 8,159,136</u></b>	<b><u>\$3,675,599</u></b>

**(a) Special warrants**

On May 18, 2005 ("closing date"), the Company completed the issue of 3,548,241 Special warrants at \$ 1.30 per warrant for total gross proceeds of \$ 4,612,714. Each Special warrant entitles the holder to receive, without payment of any further consideration, one common share (a "share") at any time up to the date which is nine months from the closing date and upon the completion of a going-public transaction. In the event that a going-public transaction occurs after the day which is nine months from May 18, 2005 but prior to March 31, 2006, each Special warrant will entitle the holder to 1.10 shares. In the event that a going-public transaction does not occur prior to March 31, 2006, each Special warrant shall entitle the holder to 1.18 shares.

	<u>Shares</u>	<u>Value</u>
Balance, January 1, 2005	-	\$ -
Special warrants issued during the period	3,548,241	4,612,714
Special warrants issue costs (Note 9 (b))	<u>-</u>	<u>(204,517)</u>
Balance, June 30, 2005	<b><u>3,548,241</u></b>	<b><u>\$ 4,408,197</u></b>



# KABOOSE INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

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### 9. Capital stock and other equity (cont'd)

#### (b) Special warrants issue costs

Upon the issuance of the Special warrants, an agency fee of \$130,126 was paid in cash and 100,097 Compensation warrants were issued to the broker. The Compensation warrants issued to the broker are exercisable into Compensation options based on exactly the same exercise terms as the Special warrants. The Compensation options are exercisable into common shares on a one-for-one basis at the earlier of May 18, 2007 or twelve months following a going-public transaction and upon payment of \$1.30 per common share. In addition, legal and professional fees were incurred in the amount of \$ 74,391 for total share issue costs of \$ 204,517.

### 10. Stock options

As at June 30, 2005 the following options are outstanding, vested and exercisable:

<u>Range of Exercise Prices</u>	<u>Number Granted:</u>	<u>Number Vested:</u>	<u>Number Exercisable:</u>	<u>Weighted Average Exercise Prices:</u>	<u>Weighted Average Remaining Contractual life:</u>
\$0.66	685,833	584,999	-	\$ 0.66	5.1 years
\$0.75 - \$0.90	586,500	-	-	\$ 0.76	4.0 years
\$1.00 - \$1.30	<u>201,000</u>	<u>-</u>	<u>-</u>	<u>\$ 1.21</u>	4.8 years
	<u>1,473,333</u>	<u>584,999</u>	<u>-</u>	<u>\$ 0.77</u>	

The number of stock options ("options") granted during the period were 201,000 with exercise prices ranging from \$1.00 to \$1.30 per common share. 5,000 employee options with an exercise price of \$0.85 per common share were cancelled during the period. No options were exercised during the period.

Of the 888,334 issued and unvested options, 584,167 have vesting conditions attached based on a variety of future oriented performance based indicators of the company. If these performance based indicators are not met, the options that vest will be determined by the Board of Directors. The remaining 304,167 options vest evenly over periods from one to three years from the date of grant and all options expire between five and seven years from the date of grant. All issued and vested stock options become exercisable upon a going-public transaction or a change of control.

# KABOOSE INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

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### 10. Stock options (cont'd)

Stock-based compensation:

The estimated fair value of options granted during the period and prior years was amortized into income over the vesting period, on a straight-line basis and is determined using the Black-Scholes option pricing model.

	<b>June 30, 2005</b>	<b>June 30, 2004</b>
Stock-based compensation costs expensed in the period	\$ <u>75,340</u>	\$ <u>32,326</u>
Number of options granted during the period	<u>201,000</u>	<u>-</u>
Estimated fair value of options granted during the period	\$ <u>136,275</u>	\$ <u>-</u>
Cumulative unamortized portion of stock-based compensation costs	\$ <u>323,689</u>	\$ <u>134,690</u>
Weighted average assumptions:		
Risk-free rate	3.5 %	3.5 %
Dividend yield	0.0 %	0.0 %
Volatility factor of the expected market price of the company's shares	85.0 %	60.0 %
Expected option life	3	3

### 11. Related party transactions

The company had the following transactions with related parties.

- (a) Included in selling, operating and administrative expenses is rent and management fees of \$55,556 (June 2004 - \$ 55,556) paid to a corporation of which a shareholder of the company is a director.
- (b) Included in selling, operating and administrative expenses are salaries, benefits and consulting fees of \$259,919 (June 2004 - \$ 200,534) paid or payable to certain shareholders.
- (c) Include in accounts payable are expenses payable to a shareholder in the amount of \$ 46,961 (December 2004 - \$ 15,539).

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

# KABOOSE INC.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2005

(UNAUDITED)

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### 12. Commitments

The company is committed with respect to certain operating leases for various premises. Approximate future minimum payments under the terms of these leases are as follows:

2005 (6 months)	\$ 138,449
2006	183,529
2007	<u>73,581</u>
	<u>\$ 395,559</u>

### 13. Segmented information

The Company's operations are conducted in two reportable segments: on-line advertising and media operations, and commerce.

Approximately 96% (June 2004 - 95%) of revenues are derived from the United States with the remaining revenues being derived from Canada.

During 2005, two clients represented 12% of total revenues (June 2004 - 19%).

#### Reportable segment information

Six months ended June 30, 2005:	<u>Advertising and media</u>	<u>Commerce</u>	<u>Total</u>
Revenues	\$ <u>1,291,292</u>	\$ <u>1,041,889</u>	\$ <u>2,333,181</u>
Net income (loss) before undernoted	(1,314,258)	110,506	(1,203,752)
Amortization	169,252	13,801	183,053
Interest	<u>206,576</u>	<u>7,869</u>	<u>214,445</u>
Net income (loss)	<u>(1,690,086)</u>	<u>88,836</u>	<u>(1,601,250)</u>
Total assets	<u>5,839,014</u>	<u>958,846</u>	<u>6,797,860</u>
Goodwill	<u>-</u>	<u>531,449</u>	<u>531,449</u>
Capital expenditures	<u>75,555</u>	<u>3,894</u>	<u>79,449</u>
Six months ended June 30, 2004:	<u>Advertising and media</u>	<u>Commerce</u>	<u>Total</u>
Revenues	\$ <u>1,003,221</u>	\$ <u>-</u>	\$ <u>1,003,221</u>
Net income (loss) before undernoted	(393,522)	-	(393,522)
Amortization	54,863	-	54,863
Interest	<u>128,308</u>	<u>-</u>	<u>128,308</u>
Net income (loss)	<u>(576,693)</u>	<u>-</u>	<u>(576,693)</u>
Total assets	<u>3,641,855</u>	<u>-</u>	<u>3,641,855</u>
Capital expenditures	<u>80,304</u>	<u>-</u>	<u>80,304</u>

13.

**KABOOSE INC.****NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS****JUNE 30, 2005****(UNAUDITED)****13. Segmented information (cont'd.)**Geographical information:

	<u>June 30,</u> <u>2005</u>		<u>June 30,</u> <u>2004</u>		<u>December 31,</u> <u>2004</u>
	<u>Revenue</u>	<u>Property, plant and equipment, Intangible assets, and Goodwill</u>	<u>Revenue</u>		<u>Property, plant and equipment Intangible assets and Goodwill</u>
United States	\$ 2,241,575	\$ 610,142	\$ 953,398	\$ -	
Canada	75,978	677,037	49,823	770,734	
Other	<u>15,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	
	<b><u>\$ 2,333,181</u></b>	<b><u>\$ 1,287,179</u></b>	<b><u>\$ 1,003,221</u></b>	<b><u>\$ 770,734</u></b>	

**14. Subsequent events**

Subsequent to the six month period ended June 30, 2005, Kaboose Inc. signed a letter of intent with Iron Springs Capital Corporation ("Iron Springs") to become a public company. Iron Springs is currently a Capital Pool Company traded on the TSX Venture Exchange. On the closing of this transaction, existing Kaboose Inc. shareholders will own approximately 95% of the merged company on a fully diluted basis. The merged company will be named Kaboose Corporation. Existing Kaboose Inc. shareholders will receive 3.1 shares, options and warrants of the new company for every one share, option and warrant currently owned.

**15. Financial statement presentation, recognition and disclosure revision dated September 27, 2005**

Stock-based compensation costs have been recognized and expensed in these revised interim consolidated financial statements for periods ended June 30, 2004 and 2005 in the amount of \$32,326 and \$75,340, respectively (Note 10).

**KABOOSE INC.**

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2005**

**(UNAUDITED)**

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**16. Cash flow statement**

The change in non- cash working capital consists of the following:

	<b>June 30, <u>2005</u></b>	<b>June 30, <u>2004</u></b>
Accounts receivable	\$ 184,651	\$ (233,491)
Inventory	(30,546)	-
Prepaid expenses and sundry assets	9,725	19,079
Accounts payable and accrued liabilities	(122,348)	91,260
Dividends payable	117,252	-
Deferred revenue	<u>(16,309)</u>	<u>-</u>
	<b><u>\$ 142,425</u></b>	<b><u>\$ (123,152)</u></b>

# HARENDORF, LEBANE, MOSS <sup>LLP</sup>

CHARTERED ACCOUNTANTS

IRVIN W. HARENDORF, C.A.  
MAURICE A. MOSS, B. COMM., C.A.  
JEFF S. AMBROSE, HONS. B.A., C.A.

HERBERT G. LEBANE, C.A.  
CONSULTANT TO THE FIRM

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**KABOOSE INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2004**

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**KABOOSE INC.**

**DECEMBER 31, 2004**

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# HARENDORF, LEBANE, MOSS LLP

CHARTERED ACCOUNTANTS

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CONSULTANT TO THE FIRM

## AUDITORS' REPORT

To the Directors and Shareholders of  
Kaboose Inc.

We have audited the balance sheet of Kaboose Inc. as at December 31, 2004, 2003 and 2002 and the statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Harendorf, Lebane, Moss LLP*

Markham, Ontario, Canada  
March 28, 2005 except as to Note 20 and  
Note 21 which are dated June 23, 2005 and  
September 27, 2005, respectively.

HARENDORF, LEBANE, MOSS LLP  
Chartered Accountants



**KABOOSE INC.**  
(Incorporated under the laws of Ontario)

**BALANCE SHEET**

**AS AT DECEMBER 31, 2004**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 1,584,958	\$ 40,380	\$ 76,133
Accounts receivable	895,737	275,758	116,070
Prepaid expenses and sundry assets	<u>76,590</u>	<u>46,429</u>	<u>109,214</u>
	2,557,285	362,567	301,417
<b>Property, plant and equipment</b> (Note 4)	373,043	23,202	66,649
<b>Development costs</b> (Note 5)	255,348	-	-
<b>Other assets</b> (Note 6)	<u>142,343</u>	<u>180,982</u>	<u>268,549</u>
	<b>\$ 3,328,019</b>	<b>\$ 566,751</b>	<b>\$ 636,615</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 272,416	\$ 160,841	\$ 18,553
Current portion of note payable (Note 7)	119,047	-	-
Deferred revenue	<u>76,766</u>	<u>-</u>	<u>-</u>
	468,229	160,841	18,553
<b>Long-term</b>			
Convertible debentures (Note 8)	-	2,012,310	1,315,082
Convertible retractable preference shares (Note 9)	2,582,205	-	-
Note payable (Note 7)	<u>79,365</u>	<u>-</u>	<u>-</u>
	<u>2,661,570</u>	<u>2,012,310</u>	<u>1,315,082</u>
<b>SHAREHOLDERS' EQUITY</b>			
<b>Capital stock and other equity</b> (Note 10)	3,675,599	522,959	463,747
<b>Deficit</b>	<u>(3,477,379)</u>	<u>(2,129,359)</u>	<u>(1,160,767)</u>
	<u>198,220</u>	<u>(1,606,400)</u>	<u>(697,020)</u>
	<b>\$ 3,328,019</b>	<b>\$ 566,751</b>	<b>\$ 636,615</b>

Approved on behalf of the Board:

"Jason DeZwirek"  
Director

"Jonathan Graff"  
Director

*The accompanying Notes are an integral part of these financial statements.*

**KABOOSE INC.****STATEMENT OF INCOME AND DEFICIT****YEAR ENDED DECEMBER 31, 2004**

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	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Revenue</b>	\$ <u>2,316,734</u>	\$ <u>1,239,948</u>	\$ <u>541,658</u>
<b>Expenses</b>			
Selling, operating and administrative	3,174,813	1,825,675	869,993
Impairment of deferred development costs (Note 5)	-	-	294,848
Development costs (Note 5)	-	-	322,133
Interest on convertible debentures (Note 8)	128,308	235,188	91,677
Interest on convertible retractable preference shares (Note 9)	210,719	-	-
Amortization (Note 22)	<u>150,914</u>	<u>147,677</u>	<u>127,461</u>
	<u>3,664,754</u>	<u>2,208,540</u>	<u>1,706,112</u>
<b>Net loss</b>	(1,348,020)	(968,592)	(1,164,454)
<b>(Deficit) retained earnings, beginning of year</b>	<u>(2,129,359)</u>	<u>(1,160,767)</u>	<u>3,687</u>
<b>Deficit, end of year</b>	<b><u>\$ (3,477,379)</u></b>	<b><u>\$ (2,129,359)</u></b>	<b><u>\$ (1,160,767)</u></b>

*The accompanying Notes are an integral part of these financial statements.*

**KABOOSE INC.****CASH FLOW STATEMENT****YEAR ENDED DECEMBER 31, 2004**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Cash and cash equivalents provided by (used in)</b>			
<b>Operating activities</b>			
Net loss	\$ (1,348,020)	\$ (968,592)	\$ (1,164,454)
Adjustment for non-cash items:			
Amortization	150,914	147,677	127,461
Impairment of development costs (Note 5)	-	-	294,848
Stock-based compensation costs (Note 11)	95,288	-	-
Rent (Note 8)	-	96,080	8,500
Salaries and consulting fees (Note 8)	-	125,000	72,250
Unrealized foreign exchange gain	(17,626)	-	-
Imputed interest on convertible retractable preference shares (Note 9)	91,521	-	-
Interest on convertible debentures (Note 8)	128,308	235,188	91,677
Net change in non-cash working capital (Note 23)	<u>(461,799)</u>	<u>45,387</u>	<u>(164,347)</u>
	<u>(1,361,414)</u>	<u>(319,260)</u>	<u>(734,065)</u>
<b>Investing activities</b>			
Property, plant and equipment	(151,556)	(10,459)	(99,040)
Other assets	(52,353)	(6,204)	(90,060)
Development costs	<u>(255,348)</u>	<u>-</u>	<u>-</u>
	<u>(459,257)</u>	<u>(16,663)</u>	<u>(189,100)</u>
<b>Financing activities</b>			
Note payable	(42,169)	-	-
Common shares	-	3,690	-
Convertible Class "B" preference shares (Note 9)	3,350,001	-	-
Shareholder loan	-	-	(26,000)
Convertible debentures (Note 8)	<u>57,417</u>	<u>296,480</u>	<u>1,000,000</u>
	<u>3,365,249</u>	<u>300,170</u>	<u>974,000</u>
<b>Cash and cash equivalents increase (decrease)</b>	1,544,578	(35,753)	50,835
<b>Cash and cash equivalents, beginning of year</b>	<u>40,380</u>	<u>76,133</u>	<u>25,298</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,584,958</u>	<u>\$ 40,380</u>	<u>\$ 76,133</u>
<b>Supplemental Cash Flow Information</b>			
Cash paid for interest (Note 9)	<u>\$ 119,198</u>	<u>\$ -</u>	<u>\$ -</u>

*The accompanying Notes are an integral part of these financial statements.*

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 1. Nature of business

Kaboose Inc. is an online media and marketing company focused on kids and families. The company operates the Kaboose Network which is comprised of Funschool.com, Zeeks.com, KidsDomain.com and Campsearch.com.

The company's revenues are substantially generated from advertising on the network.

### 2. Summary of significant accounting policies

#### (a) Change in accounting policy

In 2003, the shareholders of the company unanimously elected to use the following differential reporting options available for non-publicly accountable enterprises; share capital, income taxes and financial instruments. In 2004, the shareholders have withdrawn their consent. There is no effect of this change in accounting policy on the Balance Sheet or Income statement and therefore no prior period adjustments are required. The only changes to the financial statements are within the note disclosures.

#### (b) Revenue recognition

Advertising revenue is recognized when the advertisements are posted on the websites and is based on the number of impressions or hits generated through each advertisement on a monthly basis. Yearly fees are charged for use of the Campsearch.com site. These fees are deferred and recognized on a monthly basis.

#### (c) Property, plant, equipment and amortization

Property, plant and equipment are recorded at cost and are amortized over their estimated useful lives using the diminishing balance method at the following annual rates:

Office equipment	20% - diminishing balance basis
Computer equipment	30% - diminishing balance basis
Computer software	3 years on a straight line basis (2002 - 2 years on a straight line basis)
Leasehold improvements	2 years on a straight line basis

#### (d) Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under generally accepted accounting principles in Canada for deferral and amortization. When the product is deemed in service or in use, the costs are amortized on a straight line basis over 3 years. On an ongoing basis, management reviews the unamortized balance to ensure that the deferred development costs continue to satisfy the criteria for deferral and amortization.

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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(e) Other assets

Websites represent acquired application software. Trademarks represent the capitalized legal costs to register and enforce the trademark. When events and circumstances indicate that the carrying amounts may not be recoverable, a write-down to fair value is charged to income in the period that such a determination is made. Otherwise these costs are amortized as follows:

Websites	3 years on a straight line basis.
Trademarks	10 years on a straight line basis.

(f) Convertible debentures

Convertible debentures are classified in component parts as a liability and equity. The classification method used is the residual method whereby the face value of the debentures and future interest payments are discounted using the rate (imputed rate) of a similar debenture with no conversion options. The face value of the debentures less the discounted liability portion is allocated as equity.

(g) Convertible retractable preference shares

The equity and liability components of the convertible retractable preference shares are classified separately in accordance with their substance. The classification method is the residual method whereby the face value of the convertible retractable preference shares and the expected future dividend payments are discounted using a dividend rate (imputed rate) for similar preference shares with no conversion option. The imputed rate is based on a risk assessment of the company and comparisons to financial instruments with similar terms and characteristics. The dividend payment and the net imputed interest is presented as interest expense when the actual dividend rate is lower than the imputed rate on the liability portion.

(h) Foreign currency translation

Foreign currency transactions have been translated into Canadian dollars as follows:

- (i) Current assets and current liabilities at exchange rates in effect at the year end date;
- (ii) Non-current assets and non-current liabilities at the exchange rate prevailing at the time of acquisition unless such items are carried at the current market value in which case they are translated at the exchange rates in effect at the year end date;
- (iii) Revenue and expenses at the exchange rates in effect on the dates of transaction;
- (iv) Gains and losses resulting from the translation of foreign currency transactions are recognized as income or loss in the fiscal year incurred.

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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(i) Stock option plan

The company has a stock option plan, as described in Note 11. The fair value method of accounting is applied to all stock-based compensation to employees and non-employees. The estimated fair value of the options is amortized to income over the estimated vesting period, on a straight line basis, determined using the Black-Scholes option pricing model with the assumptions noted in note 11.

(j) Income taxes

The company accounts for income taxes under the asset and liability method. Under this method, future income taxes are recognized for all significant temporary differences between tax and accounting bases of assets and liabilities and for certain carryforward items. Valuation allowances are established to the extent that it is more likely than not that future tax assets will not be realized. The effect of a change in income tax rates on the future tax assets and liabilities is recognized in income in the period of change.

(k) Accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### 3. Business combination

On September 15, 2004, the company entered into an agreement to purchase certain assets of Kyle Waxman (an individual). The assets include a proprietary search engine and websites for camps and other outdoor educational programs (Campsearch.com). The consideration for the assets was US\$200,000 (CDN \$258,208) the payment of which is an interest-free promissory note payable on an earn-out basis over the 24 month period following September 1, 2004. The earn-out payments are based on a percentage of the membership revenue derived from the website. The consideration is not guaranteed and may exceed or be less than the US \$200,000. The asset purchase was accounted for using the purchase method whereby the purchase price is allocated based on the relative fair value of the assets. Any amounts under the US \$200,000 threshold will be allocated as a reduction to the assets acquired on a pro rata basis. Any amounts greater than the US \$200,000 threshold will be allocated as goodwill.

The fair value of the assets acquired in Canadian dollars as at September 15, 2004 are as follows:

Website	\$ 7,746
Computer software and technology	249,171
Computer equipment	<u>1,291</u>
	<u>\$ 258,208</u>

**KABOOSE INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2004****4. Property, plant and equipment**

	<u>2004</u>			<u>2003</u>	<u>2002</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>	<u>Net</u>
Office equipment	\$ 49,475	\$ 9,893	\$ 39,582	\$ 3,067	\$ 3,298
Computer equipment	125,017	35,919	89,098	18,193	18,586
Computer software	355,530	124,832	230,698	1,942	44,765
Leasehold improvements	<u>18,740</u>	<u>5,075</u>	<u>13,665</u>	<u>-</u>	<u>-</u>
	<b>\$ <u>548,762</u></b>	<b>\$ <u>175,719</u></b>	<b>\$ <u>373,043</u></b>	<b>\$ <u>23,202</u></b>	<b>\$ <u>66,649</u></b>

**5. Development costs**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Balance, January 1	\$ -	\$ -	\$ 345,053
Additions	255,348	-	-
Amortization	-	-	(50,205)
Impairment of development costs	<u>-</u>	<u>-</u>	<u>(294,848)</u>
Balance, December 31	<b>\$ <u>255,348</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>-</u></b>

During 2004, the company undertook the development of a proprietary search engine called Kaboose Search. The product is being developed specifically for children and their parents. The search engine is not expected to be in use until 2005 and therefore, no amortization has been recorded in these financial statements. Development costs expensed for the current year ended are \$ NIL (2003 - \$ NIL, 2002 - \$322,133). Subsequent to year-end, the company commenced a Scientific Research and Development investment tax credit claim for the development costs incurred in the current year. No amounts are recognized in these financial statements. At the end of 2002, management reviewed the unamortized balance of the deferred development costs and determined that these costs should be written off as an impairment loss due to a change in business strategy.

**6. Other assets**

	<u>2004</u>			<u>2003</u>	<u>2002</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>	<u>Net</u>
Websites	\$ 331,605	\$ 209,816	\$ 121,789	\$ 163,283	\$ 255,397
Trademarks	<u>24,499</u>	<u>3,945</u>	<u>20,554</u>	<u>17,699</u>	<u>13,152</u>
	<b>\$ <u>356,104</u></b>	<b>\$ <u>213,761</u></b>	<b>\$ <u>142,343</u></b>	<b>\$ <u>180,982</u></b>	<b>\$ <u>268,549</u></b>

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 7. Note payable

The promissory note payable of US \$164,685 (CDN \$198,412) is related to the acquisition of assets of Kyle Waxman. This note payable represents the contingent consideration outstanding per the purchase agreement (Note 3). The note is interest free, payable on an earn out basis over the 24 month period following September 1, 2004.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Note payable	\$ 198,412	\$ -	\$ -
Less current portion	<u>(119,047)</u>	<u>-</u>	<u>-</u>
Note payable - long term	<u>\$ 79,365</u>	<u>\$ -</u>	<u>\$ -</u>

The note is repayable over the next two fiscal years as follows: 2005 - \$ 119,047, 2006 - \$ 79,365.

### 8. Convertible debentures

The convertible debentures included interest bearing and non-interest bearing instruments. The interest bearing debentures bore simple interest at 12% per annum with interest payable every six months, were assignable and convertible into common shares at a rate of 50¢ per share, and were due and payable along with accrued interest on maturity. The imputed rate of interest for all debentures was 16% and the conversion rights were classified as equity (Note 10) using the residual method based on this rate. The convertible debentures were due to certain shareholders of Kaboose Inc. and a related corporation of which a shareholder of Kaboose Inc. is a director.

The terms of the convertible debentures were amended and reset on May 28, 2004 by the board of directors. These debentures were converted on June 22, 2004 into Preferred Class "A" shares and common shares based on the amended terms. The holders of the debentures waived the simple interest accrued from January 1, 2004 to the date of conversion and the amounts were allocated to equity as contributed surplus. The imputed interest to the date of conversion on the convertible debentures was also allocated to equity as contributed surplus.



**KABOOSE INC.****NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2004****8. Convertible debentures (cont'd.)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Debentures (face value), opening balance	\$ 1,951,462	\$ 1,433,902	\$ -
Debentures (face value), issued during year	<u>57,417</u>	<u>517,560</u>	<u>1,433,902</u>
	2,008,879	1,951,462	1,433,902
Equity portion of debentures	(269,267)	(269,267)	(213,745)
Imputed interest, accumulated	<u>86,923</u>	<u>63,220</u>	<u>18,730</u>
	1,826,535	1,745,415	1,238,887
Accrued simple interest, accumulated	<u>371,500</u>	<u>266,895</u>	<u>76,195</u>
Convertible debentures, liability portion	2,198,035	<b><u>\$ 2,012,310</u></b>	<b><u>\$ 1,315,082</u></b>
Convertible debentures, equity portion	<u>269,267</u>		
	2,467,302		
Conversion to Preferred class "A" shares (Note 10 (b))	(2,105,174)		
Conversion to Common shares (Note 10 (a)(ii))	(170,600)		
Contributed surplus (Note 10 (d))	<u>(191,528)</u>		
	<b><u>\$ -</u></b>		

## Summary of interest expense on convertible debentures:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Imputed interest, net of simple interest	\$ 23,703	\$ 44,490	\$ 18,730
Simple interest expense	<u>104,605</u>	<u>190,698</u>	<u>72,947</u>
	<b><u>\$ 128,308</u></b>	<b><u>\$ 235,188</u></b>	<b><u>\$ 91,677</u></b>

## Summary of debentures issued for cash , services provided and other:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash	\$ 57,417	\$ 296,480	\$ 1,000,000
Salaries and consulting fees - current year	-	125,000	72,250
Salaries and consulting fees - unpaid as of 2001	-	-	234,000
Rent - current year	-	96,080	8,500
Shareholders' loans - unpaid as of 2001	<u>-</u>	<u>-</u>	<u>119,152</u>
	<b><u>\$ 57,417</u></b>	<b><u>\$ 517,560</u></b>	<b><u>\$ 1,433,902</u></b>

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 9. Convertible retractable preference shares

On June 22, 2004, the company issued 4,466,670 Class "B" Convertible Floating Preferred Shares ("Retractable Preference Shares") for total proceeds of \$ 3,350,001. These shares have voting rights on the basis of such number of votes per Class "B" shares as equal to the number of Common shares into which each Class "B" share is convertible. The retractable preference shares have a dividend rate calculated as the lower of 8% per annum and Prime + 2.75% per annum. The dividends are payable on a semi-annual basis. They are redeemable at the option of the holders on May 15, 2008 at the paid up amount plus any accrued and unpaid dividends. Holders of these retractable preference shares have the right to exchange their shares for common shares of the company at the rate of one common share for every one retractable preference share at any time through to May 15, 2008. After May 15, 2008, the company has the option of converting the retractable preference shares into common shares at the rate of one common share for every one retractable preference share. These retractable preference shares have been classified in component parts as both a liability and equity. The related "dividend" payments and the net imputed interest are presented as interest expense due to the actual dividend rate being lower than the imputed rate on the liability portion. The imputed interest rate used to value the liability and equity components was 16%. The rate was based on a risk assessment of the company and comparisons to financial instruments with similar terms and characteristics.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Opening balance	\$ -	\$ -	\$ -
Issuance of convertible retractable preference shares	3,350,001	-	-
Imputed interest, net of dividend paid	91,521	-	-
Equity portion	<u>(859,317)</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 2,582,205</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

#### Summary of interest expense on convertible retractable preference shares:

Imputed interest, net of dividends paid	\$ 91,521	\$ -	\$ -
Dividends paid, deemed as interest	<u>119,198</u>	<u>-</u>	<u>-</u>
	<b><u>\$ 210,719</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 10. Capital stock and other equity

Authorized:

Unlimited Common shares

Unlimited Preferred Class "A" shares,

The Class "A" shares are voting, bear no dividends, convertible into common shares at any time by the holder on the basis of one Common share for every one Preferred Class "A" share held. After May 15, 2008, these shares are convertible at the company's option on the basis of one Common share for every one Preferred Class "A" share held.

Unlimited Preferred Class "B" shares (Note 9)

		<u>2004</u>	<u>2003</u>	<u>2002</u>
Issued:				
1,777,443	Common shares (Note 10 (a))	\$ 424,292	\$ 253,692	\$ 250,002
4,376,489	Preferred Class "A" shares (Note 10 (b))	2,105,174	-	-
4,466,670	Preferred Class "B" shares, equity portion (Note 10 (c))	859,317	-	-
	Contributed surplus (Note 10 (d))	286,816	-	-
	Convertible debentures, equity portion (Note 8)	<u>-</u>	<u>269,267</u>	<u>213,745</u>
		<u>\$ 3,675,599</u>	<u>\$ 522,959</u>	<u>\$ 463,747</u>

#### (a) Common shares

(i) On June 22, 2004, the company filed articles of amendment to consolidate all issued and outstanding common shares on the basis of 3 old common shares for 1 new common share. Shares issued prior to consolidation were 3,702,330 and subsequent to consolidation were 1,234,110.

(ii) On June 22, 2004, the company issued 543,334 common shares pursuant to the conversion privileges of debentures having a combined value of \$ 170,600 (Note 8).

#### (b) Preferred Class "A" shares

On June 22, 2004, the company issued 4,376,489 Preferred Class "A" shares pursuant to the conversion privileges of debentures having a combined value of \$ 2,105,174 (Note 8).

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 10. Capital stock and other equity (cont'd.)

(c) Preferred Class "B" shares

This represents the value of the conversion privileges of the Class "B" shares due to this instrument being classified into its liability and equity components (Note 9).

(d) Contributed surplus

Balance, January 1, 2004	\$ -
Convertible debentures - accumulated imputed interest (Note 8)	86,923
Convertible debentures - waived simple interest (Note 8)	104,605
Stock-based compensation costs (Note 11)	<u>95,288</u>
Balance, December 31, 2004	<u>\$ 286,816</u>

### 11. Stock options

On May 18, 2004, the shareholders of the company approved an employee share option incentive plan ("Plan") under which the directors of the company may grant options to acquire shares to qualified directors, officers and employees. The maximum number of common shares which have been reserved pursuant to options granted under this Plan cannot exceed 2,285,953 common shares, being 20% of the number of issued and outstanding shares, on a fully diluted basis as of June 22, 2004 including any shares that have been reserved for issuance under the pending exercise of stock options and warrants issued as of that date.

The stock options ("options") granted as of December 31, 2003 were also consolidated on a 3 for 1 basis (Note 10 (a) (i)). Options granted as of December 31, 2003 were 2,057,499 and after consolidation on June 22, 2004 were 685,833. The number of options granted during the year were 591,500 with exercise prices ranging from \$0.75 to \$0.90. No options were exercised or cancelled during 2004.

As at December 31, 2004 the following options are outstanding, vested and exercisable:

<u>Range of Exercise Prices:</u>	<u>Number Granted:</u>	<u>Number Vested:</u>	<u>Number Exercisable:</u>	<u>Weighted Average Exercise Prices:</u>	<u>Weighted Average Remaining Contractual life:</u>
\$0.66	685,833	484,166	-	\$ 0.66	5.6 years
\$0.75 - \$0.90	<u>591,500</u>	-	-	<u>\$ 0.76</u>	4.5 years
	<u>1,277,333</u>	<u>484,166</u>	-	<u>\$ 0.71</u>	

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 11. Stock options (cont'd.)

Of the 793,167 issued and unvested options, 610,000 have vesting conditions attached based on a variety of future oriented performance based indicators of the company. If these performance based indicators are not met, the options that vest will be determined by the Board of Directors. The remaining 183,167 options vest evenly over periods from one to three years from the date of grant and all options expire between five and seven years from the date of grant. All issued and vested stock options become exercisable upon a going-public transaction or a change of control.

#### Stock-based compensation:

The estimated fair value of options granted in 2004 was amortized into income. The estimated fair value of options granted in 2003 were not amortized into income until 2004 as the amount to be amortized for that year was not material.

	<u>2004</u>	<u>2003</u>
Stock-based compensation costs expensed	\$ <u>95,288</u>	\$ <u>-</u>
Number of options granted during year	<u>591,500</u>	<u>685,833</u>
Estimated fair value of options granted during year	\$ <u>191,026</u>	\$ <u>167,016</u>
Cumulative unamortized portion of stock-based compensation costs	\$ <u>262,754</u>	\$ <u>167,016</u>
Weighted average assumptions:		
Risk-free rate	3.5 %	3.5 %
Dividend yield	0.0 %	0.0 %
Volatility factor of the expected market price of the company's shares	60.0 %	60.0 %
Expected option life	3	3

### 12. Warrants

Common share purchase warrants (warrants) outstanding and exercisable as at December 31, 2004 are 123,333 (2003 and 2002 - 370,000). These warrants were consolidated on a 1 for 3 basis on June 22, 2004 (Note 10 (a) (i)). The terms of the warrants were amended and approved by the board of directors on June 22, 2004. The exercise price was reduced from \$0.75 to \$0.66 and the expiry extended to September 26, 2008. The share for warrant ratio is 1 for 1.

### 13. Financial instruments

The company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, convertible retractable preference shares and a note payable

#### Fair values:

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the immediate or short-term maturity of these financial instruments.

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 13. Financial instruments (cont'd.)

The fair values of the convertible retractable preference shares and the note payable are estimated using discounted cash flow analyses based on current corresponding borrowing rates for similar types of borrowing arrangements.

The carrying value of the convertible retractable preference shares approximate their estimated fair value based on the allocation between the liability and equity components (Note 9).

The fair market value of the note payable as of December 31, 2004 is \$ 182,434.

Interest rate risk:

The company has minimal exposure to interest rate risk as the company is largely funded by equity. The minimal exposure is on the dividend rate for the convertible retractable preference shares (Note 9). The company is exposed to a change in the prime interest rate up to 5.25% as the dividend rate is capped at 8%.

Credit risk:

The credit risk is moderate due to the concentration of two clients representing 25% of accounts receivable as at December 31, 2004 (2003 and 2002 - one client representing 41% and 75%, respectively).

Foreign exchange risk:

The foreign exchange risk is minimal. The risk is contained in the note payable (Note 7) which is payable in US dollars. The conversion rate from US dollars to Canadian dollars as at December 31, 2004 was 1.202.

### 14. Income taxes

The company has not recognized any future tax assets as of December 31, 2004 as it is more likely than not that future tax assets will not be realized. The future tax assets have been calculated using the rates expected to be enacted in the future; 2004 - (Combined rate 36.12%), 2003 and 2002 - (Combined rate 36.5%)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Future income tax assets:			
Loss carry forwards	\$ 969,200	\$ 704,100	\$ 421,905
Property, plant, equipment and other assets	<u>101,800</u>	<u>47,800</u>	<u>6,718</u>
	1,071,000	751,900	428,623
Valuation allowance	<u>(1,071,000)</u>	<u>(751,900)</u>	<u>(428,623)</u>
Future tax assets recognized	\$ -	\$ -	\$ -

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 14. Income taxes (cont'd.)

The following is a summary of the tax losses with the year of expiry as of December 31, 2004:

2006	\$ 55,795
2007	213,877
2008	163,730
2009	722,501
2010	773,142
2011	<u>754,260</u>
	<b><u>\$ 2,683,305</u></b>

### 15. Related party transactions

The company had the following transactions with related parties.

- (a) Paid rent and management fees of \$ 111,112 (2003 - \$ 96,080, 2002 - \$ 48,000) to a corporation of which a shareholder of the company is a director.
- (b) Included in salaries, benefits and consulting fees are salaries of \$ 367,495 (2003 - \$ 203,000, 2002 - \$ 138,702) paid or payable to certain shareholders.
- (c) Included in accounts payable are expenses payable to a shareholder in the amount of \$ 15,539 (2003 - \$ 59,025, 2002 - \$ 8,212).

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

### 16. Commitments

The company is committed with respect to certain operating leases for the premises. Approximate future minimum payments under the terms of these leases are as follows:

2005	\$ 147,161
2006	147,161
2007	<u>73,581</u>
	<b><u>\$ 367,903</u></b>

The premises lease expires on July 1, 2007.

# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 17. Subsequent events

On February 25, 2005, a newly formed wholly owned US subsidiary of the company purchased certain assets of Birthday-in-a-Box Inc. (BIAB). Under the terms of the all cash deal, the company purchased BIAB's name, intellectual property, domain name birthdayinbox.com, furniture and equipment, inventory, customer and supplier contracts and leases, office lease, all books and records and accounts receivable. The purchase price was US \$ 225,000 plus the company will also assume certain liabilities disclosed in BIAB's December 31, 2004 Balance Sheet not to exceed US \$ 415,000. The maximum potential consideration for this purchase is US \$ 640,000.

### 18. Segmented Information

The company operates in one primary operating segment, that being online media and marketing. Approximately 94% (2003 - 96%, 2002 - 66%) of revenues are derived from the United States with the remaining revenues being derived from Canada.

During 2004, two clients represented 23% of total revenue (12% and 11%, respectively).

During 2003, two clients represented 54% of total revenue (42% and 12%, respectively)

During 2002, one client represented 40% of total revenue.

### 19. Comparative figures

Certain 2003 and 2002 figures have been reclassified to conform to the financial statement presentation adopted for the current year and as stated in Note 20.

### 20. Financial statement presentation and disclosure revision dated June 23, 2005

The following items represent the revisions to the financial statements:

- a) The presentation of the financing and operating activities section of the cash flow statement has been changed to adjust for non-cash items such as rent, salaries and consulting fees and interest on convertible debentures which were all previously included in the financing activities section. All these non-cash items are related to the convertible debentures which were converted to Convertible Class "A" preference shares and Common shares during 2004 (Note 8). The note payable item in the financing activities section was also adjusted to remove the non-cash portion (Note 7).
- b) A note disclosure related to segmented information is included in the revised financial statements.
- c) The note disclosure related to financial instruments was adjusted for a change in the credit risk. The risk was adjusted from minimal to moderate (Note 13).
- d) Disclosure of the voting rights of the holders of the Preferred Class "B" shares is included in Note 9.



# KABOOSE INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 21. Financial statement presentation, recognition and disclosure revision dated September 27, 2005

Stock-based compensation costs have been recognized and expensed for 2004 in these revised financial statements in the amount of \$ 95,288 (Note 11).

### 22. Amortization

The following represents a breakdown of amortization:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Property, plant and equipment:			
Office equipment	\$ 6,885	\$ 708	825
Computer equipment	15,504	6,490	7,721
Computer software	24,712	46,708	47,456
Leasehold improvements	<u>5,075</u>	<u>-</u>	<u>-</u>
	<u>52,176</u>	<u>53,906</u>	<u>56,002</u>
Development costs (Note 5):	<u>-</u>	<u>-</u>	<u>50,205</u>
Other assets:			
Websites	96,755	92,115	20,947
Trademarks	<u>1,983</u>	<u>1,656</u>	<u>307</u>
	<u>98,738</u>	<u>93,771</u>	<u>21,254</u>
	<u>\$ 150,914</u>	<u>\$ 147,677</u>	<u>\$ 127,461</u>

### 23. Cash flow statement

The change in non- cash working capital consists of the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Accounts receivable	\$ (619,979)	\$ (159,687)	\$ 20,810
Work in progress	-	-	19,757
Prepaid expenses	(30,161)	62,785	(99,926)
Loans payable	-	-	(28,665)
Accounts payable and accrued liabilities	111,575	142,289	(38,823)
Deferred revenue	<u>76,766</u>	<u>-</u>	<u>(37,500)</u>
	<u>\$ (461,799)</u>	<u>\$ 45,387</u>	<u>\$ (164,347)</u>

# **HARENDORF, LEBANE, MOSS** LLP

**CHARTERED ACCOUNTANTS**

IRVIN W. HARENDORF, C.A.  
MAURICE A. MOSS, B. COMM., C.A.  
JEFF S. AMBROSE, HONS. B.A., C.A.

HERBERT G. LEBANE, C.A.  
CONSULTANT TO THE FIRM

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**BIRTHDAY IN A BOX, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2004**

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**BIRTHDAY IN A BOX, INC.**

**DECEMBER 31, 2004**

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# HARENDORF, LEBANE, MOSS LLP

CHARTERED ACCOUNTANTS

IRVIN W. HARENDORF, C.A.  
MAURICE A. MOSS, B. COMM., C.A.  
JEFF S. AMBROSE, HONS. B.A., C.A.

HERBERT G. LEBANE, C.A.  
CONSULTANT TO THE FIRM

## AUDITORS' REPORT

To the Directors and Shareholders of  
Birthday in a Box, Inc.

We have audited the balance sheet of Birthday in a Box, Inc. as at December 31, 2004 and the statements of income and deficit and cash flow for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Because our firm was appointed as auditor of the company subsequent to the fiscal year end, we were unable to observe the counting of physical inventory at the beginning or end of the year. We were unable to satisfy ourselves with regards to the opening and closing inventory by alternative means. Since opening and closing inventory enter into the determination of the results of operations and cash flows, we were unable to determine whether adjustments to cost of sales, income before taxes, income taxes, net income for the year, opening deficit and cash provided from operating activities might be necessary.

In our opinion, except for the effect of adjustments, if any, which might have been determined to be necessary had we been able to examine the opening and closing inventory quantities, as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Harendorf, Lebane, Moss* LLP

Markham, Ontario  
May 9, 2005

HARENDORF, LEBANE, MOSS LLP  
Chartered Accountants

1.

**BIRTHDAY IN A BOX, INC.**  
**(Incorporated under the laws of Maryland, U.S.A.)**

**BALANCE SHEET**

**AS AT DECEMBER 31, 2004**

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**ASSETS**

**Current**

Inventory	\$ 152,694	
Future income tax assets (Note 3)	70,388	
Prepaid expenses and sundry assets	<u>4,994</u>	\$ 228,076

**Property, plant and equipment** (Note 4) 34,960

**Other assets** (Note 5) 38,579

**\$ 301,615**

**LIABILITIES**

**Current**

Bank indebtedness (Note 6)	\$ 220,564	
Accounts payable and accrued liabilities	192,682	
Obligations under capital lease (Note 7)	14,129	
Shareholders' loans (Note 8)	<u>19,912</u>	\$ 447,287

**SHAREHOLDERS' DEFICIENCY**

**Capital stock** (Note 9) 1,446

**Deficit** (147,118) (145,672)

**\$ 301,615**

Approved on behalf of the Board:

"Laurie Wrigley"  
President

*The accompanying Notes are an integral part of these financial statements.*

**BIRTHDAY IN A BOX, INC.**

**STATEMENT OF INCOME AND DEFICIT**

**YEAR ENDED DECEMBER 31, 2004**

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<b>Sales</b>			\$ 1,316,567
<b>Cost of sales</b>			<u>570,065</u>
<b>Gross profit</b>			746,502
<b>Expenses</b>			
Selling, general and administrative (Schedule)	\$ 635,934		
Interest	18,373		
Amortization of property, plant and equipment	12,926		
Amortization of other assets	<u>31,354</u>	<u>698,587</u>	
<b>Income (loss) before taxes</b>			47,915
<b>Income taxes (Note 3)</b>			<u>12,957</u>
<b>Net income</b>			60,872
<b>Deficit, beginning of year</b>			<u>(207,990)</u>
<b>Deficit, end of year</b>			\$ <u>(147,118)</u>

*The accompanying Notes are an integral part of these financial statements.*

# BIRTHDAY IN A BOX, INC.

## CASH FLOW STATEMENT

YEAR ENDED DECEMBER 31, 2004

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### Cash provided by (used in):

#### Operating activities

Net income	\$ 60,872	
Adjustment for non-cash items:		
Amortization of property, plant and equipment	12,926	
Amortization of other assets	<u>31,354</u>	\$ 105,152

#### Changes in non-cash working capital

Inventory	(57,933)	
Future income tax assets	(12,957)	
Prepaid expenses and sundry assets	1,789	
Accounts payable and accrued liabilities	1,848	
Shareholders' loans	<u>6,000</u>	<u>(61,253)</u>
		43,899

#### Investing activities

Property, plant and equipment	(8,471)	
Equipment under capital lease	<u>(6,112)</u>	(14,583)

#### Financing activities

Bank indebtedness	(36,922)	
Obligations under capital lease	<u>(3,842)</u>	<u>(40,764)</u>

#### Cash and cash equivalents decrease

(11,448)

#### Cash and cash equivalents, beginning of year

11,448

#### Cash and cash equivalents, end of year

\$ -

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#### Supplemental Cash Flow Information

Cash paid for interest	\$ <u>18,373</u>
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*The accompanying Notes are an integral part of these financial statements.*

# **BIRTHDAY IN A BOX, INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2004**

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### **1. Nature of business**

Birthday In A Box, Inc. ("BIAB") is an Internet retailer that packages and ships children's party supplies throughout the United States and overseas via their website birthdayinabox.com. The company also provides wholesale party packages to party hosting facilities and other online retailers. The company was incorporated in Maryland, U.S.A. and is headquartered there.

The company's revenues are substantially generated from packaging and shipping children's party supplies.

### **2. Summary of significant accounting policies**

The financial statements of BIAB have been prepared in accordance with the generally accepted accounting principles used in Canada. The financial statements are expressed in United States ("U.S.") dollars since BIAB is headquartered in the United States and substantially all the financial results are denominated in U.S. dollars.

#### **(a) Inventory**

Inventory is valued at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

#### **(b) Revenue recognition**

Sales are recognized upon the shipment of goods to customers, when collectibility of proceeds is reasonably assured. The company deducts from gross sales all sales discounts, returns and allowances.

#### **(c) Property, plant, equipment and amortization**

Property, plant and equipment are recorded at cost and are amortized over their estimated useful lives using the following annual rates:

Furniture and fixtures	28.5% - diminishing balance basis
Computer equipment	40.0% - diminishing balance basis
Computer software	3 years on a straight line basis



# BIRTHDAY IN A BOX, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 2. Summary of significant accounting policies (cont'd)

#### (d) Other assets

Websites represent acquired application software. When events and circumstances indicate that the carrying amounts may not be recoverable, a write-down to fair value is charged to income in the period that such a determination is made. Otherwise these costs are amortized as follows:

Websites        3 years on a straight line basis.

#### (e) Foreign currency translation

Foreign currency transactions have been translated into U.S. dollars as follows:

- (i) Monetary items at exchange rates in effect at the year end date;
- (ii) Non-monetary items at the exchange rate prevailing at the time of acquisition unless such items are carried at the current market value in which case they are translated at the exchange rates in effect at the year end date. Any amortization related to these items are translated at the same historical rate;
- (iii) Revenue and expenses at the exchange rates in effect on the dates of settlement;
- (iv) Gains and losses resulting from the translation of foreign currency transactions are recognized as income or loss in the fiscal year incurred.

#### (f) Income taxes

The company accounts for income taxes under the asset and liability method. Under this method, future income taxes are recognized for all significant temporary differences between tax and accounting bases of assets and liabilities and for certain carryforward items. Valuation allowances are established to the extent that it is more likely than not that future tax assets will not be realized. The effect of a change in income tax rates on the future tax assets and liabilities is recognized in income in the period of change.

#### (g) Accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

# BIRTHDAY IN A BOX, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 3. Income taxes

The future income tax assets and liabilities have been calculated using the rates expected to be enacted in the future and the expected taxable income levels; 2004 - (Combined effective rate 37%), 2003 - (Combined effective rate 25%). Loss carryforwards were applied to reduce current income taxes to nil. The balance of loss carryforwards were re-valued and re-classified as current to take into account the expected taxable income in 2005 due to the sale of substantially all the net assets of the company (Note 13).

The significant components of the future income tax assets net of future income tax liabilities are as follows

Future income tax assets:	
Loss carry forwards	\$ 74,918
Future income tax liabilities:	
Equipment under capital lease	<u>(4,530)</u>
Net future income tax assets	<u>\$ 70,388</u>

Net future income tax assets are classified in the financial statements as follows:

Future income tax assets - current	\$ 70,388
Future income tax assets - long-term	<u>-</u>
	<u>\$ 70,388</u>

The income tax expense balance is comprised of the following:

Current income taxes (recovery)	\$ -
Future income taxes (reductions)	<u>(12,957)</u>
	<u>\$ (12,957)</u>

# BIRTHDAY IN A BOX, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 3. Income taxes (cont'd.)

The following is a summary of the tax losses with the year of expiry as of December 31, 2004:

2023	\$ 67,817
2022	20,209
2021	59,970
2020	42,213
2019	11,544
2018	<u>728</u>
	<b>\$ <u>202,481</u></b>

### 4. Property, plant and equipment

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Office equipment	\$ 42,521	\$ 25,681	\$ 16,840
Equipment under capital lease	<u>30,270</u>	<u>12,150</u>	<u>18,120</u>
	<b>\$ <u>72,791</u></b>	<b>\$ <u>37,831</u></b>	<b>\$ <u>34,960</u></b>

### 5. Other assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Website	<b>\$ <u>133,040</u></b>	<b>\$ <u>94,461</u></b>	<b>\$ <u>38,579</u></b>

# BIRTHDAY IN A BOX, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 6. Bank indebtedness

The bank indebtedness is comprised of the following:

Bank overdraft	\$	322
Demand line of credit		73,322
Term operating loan		<u>146,920</u>
	\$	<u>220,564</u>

The demand line of credit bears interest at 6.25%. Security is provided by way of a general security agreement over all of the assets of the company. The line of credit has been classified as current as the balance was repaid in full during March of 2005 (Note 13) and due to the demand nature of the facility.

The term operating loan bears interest at 6.75%. Security is provided by way of a general security agreement over all of the assets of the company. The term loan is personally guaranteed by two of the shareholders. The term operating loan has been classified as current as the balance was repaid in full during March of 2005 (Note 13).

### 7. Obligations under capital lease

Obligations under capital lease bear interest at an average rate of 9% per annum. Equipment under capital lease with a net book value of \$18,120 was pledged as security (Note 4). All capital leases effective January 1, 2005 were assumed by Kaboose.com Inc. (Note 13) and therefore, obligations under capital lease are classified as current.

### 8. Shareholders' loans

The shareholders' loans are non-interest bearing and due on demand. The balance was repaid in full during March of 2005 (Note 13).

# BIRTHDAY IN A BOX, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 9. Capital stock

Authorized:

1,000 Common shares

Issued:

500	Common shares	\$	1,000
	Contributed surplus		<u>446</u>
		\$	<u>1,446</u>

### 10. Financial instruments

The company's financial instruments consist of bank indebtedness, accounts payable and accrued liabilities and shareholders' loans.

Fair values:

The carrying value of bank indebtedness, accounts payable and accrued liabilities and shareholders' loans approximate fair value due to the immediate or short-term maturity of these financial instruments.

Interest rate risk:

The company has minimal exposure to interest rate risk as the company bank debt was repaid in full subsequent to the year end date in March of 2005 (Note 13)

Credit risk:

The credit risk is very minimal as substantially all of the transactions are handled through Verisign and goods are only shipped upon receipt of credit card approval.

Foreign exchange risk:

The foreign exchange risk is very minimal as substantially all transactions are conducted in U.S. dollars.

# BIRTHDAY IN A BOX, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2004

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### 11. Related party transactions

The company had the following transactions with related parties.

- (a) Included in wages, salaries and benefits are salaries of \$ 63,805 paid or payable to certain shareholders.
- (b) Included in accounts payable are expenses payable to a shareholder in the amount of \$ 6,934.

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by both parties.

### 12. Commitments

The company was committed with respect to certain leases for the premises and equipment as of December 31, 2004. The lessor of the equipment is a corporation for which a shareholder of the company is vice-president and a shareholder. Monthly rental payments for the premises were \$2,800 during the year until December when the lease was extended for one year and payments increased to \$4,375 per month. All the leases effective January 1, 2005 were assumed by Kaboose.com Inc. (Note 13). Future minimum lease payments for all operating and capital leases including interest as at December 31, 2004 are as follows:

2005	\$ 60,259
2006	<u>5,369</u>
	<u>\$ 65,628</u>

### 13. Subsequent events

Effective January 1, 2005, the company sold substantially all of the net assets to Kaboose.com Inc. ("Kaboose"). Kaboose also assumed the liabilities of the company as of December 31, 2004 up to \$ 415,000. The purchase price was \$ 225,000 plus the liabilities assumed. The maximum potential consideration for this sale is \$ 640,000.

**BIRTHDAY IN A BOX, INC.**

**SCHEDULE OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

**YEAR ENDED DECEMBER 31, 2004**

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Wages, salaries and benefits	\$ 314,748
Advertising and promotion	101,842
Occupancy	41,402
Credit card charges	39,358
Commissions	30,180
Warehouse supplies	27,566
Hosting, internet and server maintenance	25,318
Office and general	23,186
Professional fees	12,621
Telephone	11,363
Bank charges and interest	4,449
Repairs and maintenance	2,274
Insurance	<u>1,627</u>
	<b>\$ <u>635,934</u></b>

**SCHEDULE 4**  
**PRO FORMA FINANCIAL STATEMENTS**



**IRON SPRINGS CAPITAL CORP.**

**PRO-FORMA CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**JULY 31, 2005**

**COMPILATION REPORT ON  
PRO-FORMA CONSOLIDATED BALANCE SHEET**

To the Directors of  
Iron Springs Capital Corp.

We have read the accompanying unaudited pro-forma consolidated balance sheet of Iron Springs Capital Corp. ("the Company") as at July 31, 2005 and have performed the following procedures.

1. Compared the figures in the columns captioned "Iron Springs Capital Corp." to the unaudited balance sheet of the Company as at July 31, 2005 and found them to be in agreement.
2. Compared the figures in the columns captioned "Kaboose Inc." to the unaudited balance sheet of Kaboose as at June 30, 2005 and found them to be in agreement.
3. Made enquiries of certain officials of the Company who have responsibility for financial and accounting matters about:
  - a) the basis for determination of the pro-forma adjustments; and
  - b) whether the pro-forma financial statements comply as to form in all material respects with the TSX Venture Exchange policies.

The officials:

- a) described to us the basis for determination of the pro-forma adjustments; and
  - b) stated that the pro-forma financial statements comply as to form in all material respects with the TSX Venture Exchange policies.
4. Read the notes to the pro-forma balance sheet, and found them to be consistent with the basis described to us for determination of the pro-forma adjustments.
  5. Recalculated the application of the pro-forma adjustments to the aggregate of the amounts in the columns captioned "Iron Springs Capital Corp." and "Kaboose Inc." as at July 31, 2005 and found the amounts in the column captioned "Pro-forma Consolidated" to be arithmetically correct.

A pro-forma financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the pro-forma adjustments and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the pro-forma balance sheet and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

**"DAVIDSON & COMPANY"**

Vancouver, Canada

Chartered Accountants

October 14, 2005

A Member of SC INTERNATIONAL

**IRON SPRINGS CAPITAL CORP.**  
**PRO-FORMA CONSOLIDATED BALANCE SHEET**  
(Unaudited – See Compilation Report)  
AS AT JULY 31, 2005

	Iron Springs Capital Corp.	Kaboose Inc.	Note	Pro-forma Adjustments	Pro-forma Consolidated
<b>ASSETS</b>					
<b>Current</b>					
Cash and cash equivalents	\$ 372,913	\$ 4,512,261	2c	\$ 9,000,000	\$ 13,885,174
Accounts receivable	-	711,086		-	711,086
Inventory	-	214,512		-	214,512
Prepaid expenses	<u>3,537</u>	<u>72,822</u>		<u>-</u>	<u>76,359</u>
	376,450	5,510,681		9,000,000	14,887,131
<b>Property, plant and equipment</b>	-	405,134		-	405,134
<b>Deferred development costs</b>	-	218,547		-	218,547
<b>Goodwill</b>	-	531,449		-	531,449
<b>Other assets</b>	<u>-</u>	<u>132,049</u>		<u>-</u>	<u>132,049</u>
	\$ 376,450	\$ 6,797,860		\$ 9,000,000	\$ 16,174,310
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current</b>					
Accounts payable and accrued liabilities	\$ 19,627	\$ 671,548		\$ -	\$ 691,175
Dividends payable	-	117,252		-	117,252
Note payable	-	87,537		-	87,537
Deferred revenue	<u>-</u>	<u>60,457</u>		<u>-</u>	<u>60,457</u>
	19,627	936,794		-	956,421
<b>Convertible retractable preference shares</b>	-	2,671,529	2b	(2,671,529)	-
<b>Notes payable</b>	<u>-</u>	<u>109,030</u>		<u>-</u>	<u>109,030</u>
	<u>19,627</u>	<u>3,717,353</u>		<u>(2,671,529)</u>	<u>1,065,451</u>
<b>Shareholders' equity</b>					
			2b	2,490,684	
			2b	356,823	
			2b	(349,212)	
			2c	10,000,000	
			2c	(1,000,000)	
Capital stock (Note 3)	349,212	7,796,980	2b	180,845	19,644,487
Contributed surplus	41,720	362,156	2b	(41,720)	543,001
Deficit	<u>(34,109)</u>	<u>(5,078,629)</u>	2b	<u>34,109</u>	<u>(5,078,629)</u>
	<u>356,823</u>	<u>3,080,507</u>		<u>11,671,529</u>	<u>15,108,859</u>
	\$ 376,450	\$ 6,797,860		\$ 9,000,000	\$ 16,174,310

See accompanying notes to the unaudited pro-forma consolidated balance sheet.

**IRON SPRINGS CAPITAL CORP.**  
NOTES TO THE PRO-FORMA CONSOLIDATED BALANCE SHEET  
(Unaudited – See Compilation Report)  
JULY 31, 2005

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**1. BASIS OF PRESENTATION**

The accompanying unaudited pro-forma consolidated balance sheet of Iron Springs Capital Corp. ("the Company") has been prepared by management in accordance with accounting principles generally accepted in Canada from information derived from the financial statements of the Company and the financial statements of Kaboose Inc. ("Kaboose") together with other information available to the Company. The unaudited pro-forma consolidated balance sheet has been prepared for inclusion in an information circular dated October 17, 2005, in conjunction with the acquisition of 100% of the issued and outstanding securities of Kaboose. The acquisition is subject to certain securities regulatory approvals and the approval of both the Company's and Kaboose's shareholders. In the opinion of the Company's management, the pro-forma consolidated balance sheet includes all adjustments necessary for fair presentation of the transactions as described below.

The unaudited pro-forma consolidated balance sheet is not necessarily indicative of the financial position which would have resulted if the combination had actually occurred as set out in Note 2a.

The unaudited pro-forma consolidated balance sheet should be read in conjunction with the July 31, 2005 unaudited financial statements of the Company and the June 30, 2005 unaudited financial statements of Kaboose.

The unaudited pro-forma consolidated balance sheet of the Company has been compiled from and includes:

- a) the unaudited balance sheet of the Company as at July 31, 2005;
- b) the unaudited balance sheet of Kaboose as at June 30, 2005; and
- c) the additional information set out in Note 2.

**2. PRO-FORMA TRANSACTIONS**

The pro-forma consolidated balance sheet was prepared based on the following assumptions:

- a) The unaudited pro-forma consolidated balance sheet gives effect to the acquisition by the Company of Kaboose as if it had occurred on July 31, 2005.
- b) As consideration for all of the outstanding securities of Kaboose, the Company will issue 56,323,413 common shares of the Company, 5,855,032 options, 868,000 compensation options, 310,301 broker's warrants, and 382,332 warrants which will be convertible into common shares of the Company on a one for one basis. Prior to the acquisition, the Kaboose convertible retractable preference shares were converted into Kaboose common shares. The acquisition will occur by way of a straight amalgamation of the two companies.

Legally, the Company is the parent of Kaboose. However, as a result of the transaction described above, control of the combined companies passed to the former shareholders of Kaboose. This type of share exchange, referred to as a "reverse takeover", deems Kaboose to be the acquirer for accounting purposes. Accordingly, the net assets of Kaboose are included in the financial statements at book value and the deemed acquisition of the Company is accounted for as a purchase of the net assets of the Company recorded at fair market value at the date of acquisition. This transaction will represent a recapitalization of Kaboose.

**IRON SPRINGS CAPITAL CORP.**  
**NOTES TO THE PRO-FORMA CONSOLIDATED BALANCE SHEET**  
(Unaudited – See Compilation Report)  
JULY 31, 2005

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**2. PRO-FORMA TRANSACTIONS (cont'd...)**

b) *Continued...*

The cost of an acquisition should be based on the fair value of the consideration given, except where the fair value of the consideration given is not clearly evident. In such a case, the fair value of the net assets acquired is used.

Since the purchase of the securities of Kaboose was non-monetary and the common shares of the Company were thinly traded, it was impossible to estimate the actual market value of the 56,323,413 common shares, 5,855,032 options, 868,000 compensation options, 310,301 broker's warrants, and 382,332 warrants exchanged. Therefore, the value of the shares issued on acquisition was based on the fair value of the net assets acquired. The fair value of the Company's net assets was \$356,823.

The total purchase price of \$356,823 has been allocated as follows:

Cash as at July 31, 2005 (Note 1a)	\$ 372,913
Prepaid expenses (Note 1a)	3,537
Accounts payable and accrued liabilities	<u>(19,627)</u>
	<u>\$ 356,823</u>

c) Kaboose shall complete a private placement of subscription receipts for total proceeds of up to \$10,000,000. The total number of subscription receipts to be issued has not yet been determined and will depend on market conditions. For purposes of these pro-forma statements, the number of subscription receipts issued has been determined to be 12,400,000. The 12,400,000 subscription receipts have been included in the 56,323,413 common shares issued on the acquisition of Kaboose. Each subscription receipt will entitle the holder to acquire one common share of Kaboose. Kaboose will pay an Agent's commission of up to 7% of the total amount of the private placement. Total expected expenses related to this private placement are \$1,000,000.

d) None of the Company's stock options or warrants were considered as exercised.

**3. CAPITAL STOCK**

Capital stock as at July 31, 2005 in the pro-forma consolidated balance sheet is comprised of the following:

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	Number of Shares	Amount
Capital stock as set out in the unaudited financial statements of the Company (Note 1a)	2,320,000	\$ -
Stated capital of Kaboose as set out in their unaudited financial statements (Note 1b)	-	7,796,980
Conversion of Kaboose preference shares into common shares (Note 2b)	-	2,490,684
Shares issued on the acquisition of Kaboose (Note 2b)	56,323,413	356,823
Subscription receipts issued pursuant to private placement (Note 2c)	-	10,000,000
Share issuance costs	<u>-</u>	<u>(1,000,000)</u>
	58,643,413	\$ 19,644,487

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**IRON SPRINGS CAPITAL CORP.**  
NOTES TO THE PRO-FORMA CONSOLIDATED BALANCE SHEET  
(Unaudited – See Compilation Report)  
JULY 31, 2005

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**3. CAPITAL STOCK (cont'd...)**

The Company anticipates that certain of the 56,323,413 common shares issued will be subject to a minimum escrow period of three years as set out in TSX Venture Exchange Policy 5.4.

**Options**

The agent for the private placement discussed in Note 2(c) will be entitled to receive agent's options in the amount represented by 7% of the subscription receipts issued. The exercise price of the agent's options will be the same as the private placement offering price. For purposes of these pro-forma statements, the number of agent's options issued has been determined to be 868,000.

**SCHEDULE 5**  
**DISSENT RIGHTS**

**Business Corporations Act (Alberta)**

**Shareholder's right to dissent**

**191(1)** Subject to sections 192 and 242, a holder of shares of any class of a corporation may dissent if the corporation resolves to

- (a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue or transfer of shares of that class,
- (b) amend its articles under section 173 to add, change or remove any restrictions on the business or businesses that the corporation may carry on,
- (c) amalgamate with another corporation, otherwise than under section 184 or 187,
- (d) be continued under the laws of another jurisdiction under section 189, or
- (e) sell, lease or exchange all or substantially all its property under section 190.

**(2)** A holder of shares of any class or series of shares entitled to vote under section 176, other than section 176(1)(a), may dissent if the corporation resolves to amend its articles in a manner described in that section.

**(3)** In addition to any other right the shareholder may have, but subject to subsection (20), a shareholder entitled to dissent under this section and who complies with this section is entitled to be paid by the corporation the fair value of the shares held by the shareholder in respect of which the shareholder dissents, determined as of the close of business on the last business day before the day on which the resolution from which the shareholder dissents was adopted.

**(4)** A dissenting shareholder may only claim under this section with respect to all the shares of a class held by the shareholder or on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

**(5)** A dissenting shareholder shall send to the corporation a written objection to a resolution referred to in subsection (1) or (2)

- (a) at or before any meeting of shareholders at which the resolution is to be voted on, or
- (b) if the corporation did not send notice to the shareholder of the purpose of the meeting or of the shareholder's right to dissent, within a reasonable time after the shareholder learns that the resolution was adopted and of the shareholder's right to dissent.

**(6)** An application may be made to the Court by originating notice after the adoption of a resolution referred to in subsection (1) or (2),

- (a) by the corporation, or

- (b) by a shareholder if the shareholder has sent an objection to the corporation under subsection (5),

to fix the fair value in accordance with subsection (3) of the shares of a shareholder who dissents under this section.

(7) If an application is made under subsection (6), the corporation shall, unless the Court otherwise orders, send to each dissenting shareholder a written offer to pay the shareholder an amount considered by the directors to be the fair value of the shares.

(8) Unless the Court otherwise orders, an offer referred to in subsection (7) shall be sent to each dissenting shareholder

- (a) at least 10 days before the date on which the application is returnable, if the corporation is the applicant, or
- (b) within 10 days after the corporation is served with a copy of the originating notice, if a shareholder is the applicant.

(9) Every offer made under subsection (7) shall

- (a) be made on the same terms, and
- (b) contain or be accompanied with a statement showing how the fair value was determined.

(10) A dissenting shareholder may make an agreement with the corporation for the purchase of the shareholder's shares by the corporation, in the amount of the corporation's offer under subsection (7) or otherwise, at any time before the Court pronounces an order fixing the fair value of the shares.

(11) A dissenting shareholder

- (a) is not required to give security for costs in respect of an application under subsection (6), and
- (b) except in special circumstances must not be required to pay the costs of the application or appraisal.

(12) In connection with an application under subsection (6), the Court may give directions for

- (a) joining as parties all dissenting shareholders whose shares have not been purchased by the corporation and for the representation of dissenting shareholders who, in the opinion of the Court, are in need of representation,
- (b) the trial of issues and interlocutory matters, including pleadings and examinations for discovery,
- (c) the payment to the shareholder of all or part of the sum offered by the corporation for the shares,
- (d) the deposit of the share certificates with the Court or with the corporation or its transfer agent,



- (e) the appointment and payment of independent appraisers, and the procedures to be followed by them,
- (f) the service of documents, and
- (g) the burden of proof on the parties.

**(13)** On an application under subsection (6), the Court shall make an order

- (a) fixing the fair value of the shares in accordance with subsection (3) of all dissenting shareholders who are parties to the application,
- (b) giving judgment in that amount against the corporation and in favour of each of those dissenting shareholders, and
- (c) fixing the time within which the corporation must pay that amount to a shareholder.

**(14)** On

- (a) the action approved by the resolution from which the shareholder dissents becoming effective,
- (b) the making of an agreement under subsection (10) between the corporation and the dissenting shareholder as to the payment to be made by the corporation for the shareholder's shares, whether by the acceptance of the corporation's offer under subsection (7) or otherwise, or
- (c) the pronouncement of an order under subsection (13),

whichever first occurs, the shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of the shareholder's shares in the amount agreed to between the corporation and the shareholder or in the amount of the judgment, as the case may be.

**(15)** Subsection (14)(a) does not apply to a shareholder referred to in subsection (5)(b).

**(16)** Until one of the events mentioned in subsection (14) occurs,

- (a) the shareholder may withdraw the shareholder's dissent, or
- (b) the corporation may rescind the resolution,

and in either event proceedings under this section shall be discontinued.

**(17)** The Court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder, from the date on which the shareholder ceases to have any rights as a shareholder by reason of subsection (14) until the date of payment.

**(18)** If subsection (20) applies, the corporation shall, within 10 days after

- (a) the pronouncement of an order under subsection (13), or

- (b) the making of an agreement between the shareholder and the corporation as to the payment to be made for the shareholder's shares,

notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

**(19)** Notwithstanding that a judgment has been given in favour of a dissenting shareholder under subsection (13)(b), if subsection (20) applies, the dissenting shareholder, by written notice delivered to the corporation within 30 days after receiving the notice under subsection (18), may withdraw the shareholder's notice of objection, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to the shareholder's full rights as a shareholder, failing which the shareholder retains a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

**(20)** A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due, or
- (b) the realizable value of the corporation's assets would by reason of the payment be less than the aggregate of its liabilities.

### **Canada Business Corporations Act**

**190.** (1) Subject to sections 191 and 241, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 192(4)(d) that affects the holder or if the corporation resolves to

- (a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;
- (b) amend its articles under section 173 to add, change or remove any restriction on the business or businesses that the corporation may carry on;
- (c) amalgamate otherwise than under section 184;
- (d) be continued under section 188;
- (e) sell, lease or exchange all or substantially all its property under subsection 189(3); or
- (f) carry out a going-private transaction or a squeeze-out transaction

**Further right** (2) A holder of shares of any class or series of shares entitled to vote under section 176 may dissent if the corporation resolves to amend its articles in a manner described in that section.

**If one class of shares** (2.1) The right to dissent described in subsection (2) applies even if there is only one class of shares.

**Payment for** (3) In addition to any other right the shareholder may have, but subject to subsection (26), a

<b>shares</b>	shareholder who complies with this section is entitled, when the action approved by the resolution from which the shareholder dissents or an order made under subsection 192(4) becomes effective, to be paid by the corporation the fair value of the shares in respect of which the shareholder dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.
<b>No partial dissent</b>	(4) A dissenting shareholder may only claim under this section with respect to all the shares of a class held on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.
<b>Objection</b>	(5) A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of their right to dissent.
<b>Notice of resolution</b>	(6) The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn their objection.
<b>Demand for payment</b>	(7) A dissenting shareholder shall, within twenty days after receiving a notice under subsection (6) or, if the shareholder does not receive such notice, within twenty days after learning that the resolution has been adopted, send to the corporation a written notice containing <ul style="list-style-type: none"> <li>(a) the shareholder's name and address;</li> <li>(b) the number and class of shares in respect of which the shareholder dissents; and</li> <li>(c) a demand for payment of the fair value of such shares.</li> </ul>
<b>Share certificate</b>	(8) A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which the shareholder dissents to the corporation or its transfer agent.
<b>Forfeiture</b>	(9) A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.
<b>Endorsing certificate</b>	(10) A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.
<b>Suspension of rights</b>	(11) On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than to be paid the fair value of their shares as determined under this section except where <ul style="list-style-type: none"> <li>(a) the shareholder withdraws that notice before the corporation makes an offer under subsection (12),</li> <li>(b) the corporation fails to make an offer in accordance with subsection (12) and the</li> </ul>

shareholder withdraws the notice, or

(c) the directors revoke a resolution to amend the articles under subsection 173(2) or 174(5), terminate an amalgamation agreement under subsection 183(6) or an application for continuance under subsection 188(6), or abandon a sale, lease or exchange under subsection 189(9),

in which case the shareholder's rights are reinstated as of the date the notice was sent.

(12) A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice

- Offer to pay** (a) a written offer to pay for their shares in an amount considered by the directors of the corporation to be the fair value, accompanied by a statement showing how the fair value was determined; or
- (b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.
- Same terms** (13) Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.
- Payment** (14) Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.
- Corporation may apply to court** (15) Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.
- Shareholder application to court** (16) If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.
- Venue** (17) An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.
- No security for costs** (18) A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).
- (19) On an application to a court under subsection (15) or (16),
- Parties** (a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and
- (b) the corporation shall notify each affected dissenting shareholder of the date, place and

consequences of the application and of their right to appear and be heard in person or by counsel.

<b>Powers of court</b>	(20) On an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.
<b>Appraisers</b>	(21) A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.
<b>Final order</b>	(22) The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of the shares as fixed by the court.
<b>Interest</b>	(23) A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.
<b>Notice that subsection (26) applies</b>	(24) If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.  (25) If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may
<b>Effect where subsection (26) applies</b>	(a) withdraw their notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to their full rights as a shareholder; or  (b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.
<b>Limitation</b>	(26) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that  (a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or  (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

**SCHEDULE 6**  
**STOCK OPTION PLAN**

**KABOOSE INC.**  
**STOCK OPTION PLAN**

October 17, 2005

**KABOOSE INC.**  
**STOCK OPTION PLAN**

**ARTICLE 1**  
**DEFINITIONS AND INTERPRETATION**

1.1 **Definitions.** Where used in this Plan, unless there is something in the subject matter or context inconsistent therewith, the following terms will have the meanings set forth below:

- (a) "**Plan**" means the Corporation's stock option plan dated as of October 17, 2005, approved by the Board effective October 17, 2005 and conditionally approved by the TSX-V.
- (b) "**Administrator**" means, initially, the President or Secretary of the Corporation and thereafter will mean such director or other senior officer or employee of the Corporation or a duly appointed committee thereof as may be designated as Administrator by the Board from time to time.
- (c) "**Affiliate**" has the meaning ascribed to it in Policy 1.1 of the TSX-V Corporate Finance Manual, as amended from time to time.
- (d) "**Associate**" has the meaning ascribed to it in Policy 1.1 of the TSX-V Corporate Finance Manual, as amended from time to time.
- (e) "**Board**" means the board of directors of the Corporation, or any duly appointed committee thereof to which the board of directors of the Corporation has delegated the power to administer and grant Options under this Plan, as constituted from time to time.
- (f) "**Cause**" means:
  - (i) "cause" as such term is defined in the written employment agreement between the Corporation and the Employee; or
  - (ii) in the event there is no written employment agreement between the Corporation and the Employee or "cause" is not defined in the written employment agreement between the Corporation and the Employee, the usual meaning of cause under the laws of Ontario.
- (g) "**CBCA**" means the Canada *Business Corporations Act*, as amended from time to time.
- (h) "**Company**" unless specifically indicated otherwise, means a corporation, incorporated association or organization, body corporate, partnership, trust, association, or other entity other than an individual.



- (i) "**Consultant**" means an individual or a Company of which the said individual is an employee, shareholder or partner, other than an Employee or Director of the Corporation, who:
  - (i) provides on a *bona fide* basis consulting, technical, management or other services to the Corporation or an Affiliate of the Corporation under a written contract;
  - (ii) possesses technical, business, management or other expertise of value to the Corporation or an Affiliate of the Corporation;
  - (iii) in the reasonable opinion of the Corporation, spends or will spend a significant amount of time and attention on the business and affairs of the Corporation or an Affiliate of the Corporation; and
  - (iv) has a relationship with the Corporation or an Affiliate of the Corporation that enables the individual to be knowledgeable about the business and affairs of the Corporation.
- (j) "**Corporation**" means Kaboose Inc.
- (k) "**Directors**" means directors, senior officers and Management Company Employees of the Corporation or an Affiliate of the Corporation to whom stock options may be granted in reliance on a prospectus exemption under applicable Securities Laws.
- (l) "**Discounted Market Price**" has the meaning given to it in Policy 1.1 of the TSX-V Corporate Finance Manual;
- (m) "**disinterested Shareholder approval**" means approval by a majority of the votes cast by all shareholders of the Corporation at a duly called and held meeting of shareholders of the Corporation, excluding votes attaching to Shares beneficially owned by:
  - (i) Insiders to whom Options may be granted under this Plan; and
  - (ii) Associates of Persons referred to in subsections (m)(i) above.
- (n) "**Effective Date**" means the effective date of this Plan being October 17, 2005.
- (o) "**Employee**" means an individual who:
  - (i) is considered an employee of the Corporation or a subsidiary of the Corporation under the *Income Tax Act* (Canada) (i.e. for whom income tax, employment insurance and CPP deductions must be made at source); or
  - (ii) works full-time for the Corporation or a subsidiary of the Corporation providing services normally provided by an employee and who is subject to the same control and direction by the Corporation or a subsidiary of the

Corporation over the details and methods of work as an employee of the Corporation, but for whom income tax deductions are not made at source; or

- (iii) works for the Corporation or a subsidiary of the Corporation on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Corporation or a subsidiary of the Corporation over the details and methods of work as an employee of the Corporation, but for whom income tax deductions are not made at source.
- (p) "**Exercise Notice**" means the notice respecting the exercise of an Option, in the form set out in Exhibit "I" of the Option Agreement, duly executed by the Option Holder.
- (q) "**Exercise Period**" means the period during which a particular Option may be exercised and, subject to earlier termination in accordance with the terms hereof, is the period from and including the Grant Date through to and including the Expiry Date.
- (r) "**Exercise Price**" means the price per Share at which Shares may be purchased under an Option duly granted under this Plan as determined in accordance with **Section 3.5** of this Plan and, if applicable, adjusted in accordance with **Section 3.8** of this Plan.
- (s) "**Existing Options**" has the meaning given in **Section 3.2** of this Plan.
- (t) "**Expiry Date**" means the date determined in accordance with **Section 3.3** of this Plan and after which a particular Option cannot be exercised and is deemed to be null and void and of no further force or effect.
- (u) "**Grant Date**" means the date on which the Board grants a particular Option.
- (v) "**Insider**" means:
  - (i) a director or senior officer of the Corporation;
  - (ii) a director or senior officer of a Company that is an Insider or subsidiary of the Corporation;
  - (iii) a Person that beneficially owns or controls, directly or indirectly, Voting Shares carrying more than 10% of the voting rights attached to all Voting Shares of the Corporation; or
  - (iv) the Corporation itself if it holds any of its own securities.
- (w) "**Investor Relations Activities**" has the meaning given to it in Policy 1.1 of the TSX-V Corporate Finance Manual.
- (x) "**Limit**" shall have the meaning ascribed thereto in **Section 3.2** of this Plan.

- (y) "**Market Price**" means the last closing price of the Corporation's Shares before the issuance of any news release disclosing the grant of an Option, subject to the exceptions provided for in the TSX-V Corporate Finance Manual.
- (z) "**Management Company Employees**" means an individual employed by a Person providing management services to the Corporation which are required for the on-going successful operation of the business enterprise of the Corporation, but excluding a Person engaged in Investor Relations Activities.
- (aa) "**Option**" means an option to acquire Shares granted to a Director, Employee or Consultant pursuant to this Plan.
- (bb) "**Option Agreement**" means an agreement, in the form substantially similar as that set out in Schedule "A" hereto, evidencing an Option granted under this Plan.
- (cc) "**Option Holder**" means a Director, Employee or Consultant or former Director, Employee or Consultant, to whom an Option has been granted and who continues to hold an unexercised and unexpired Option or, where applicable, the Personal Representative of such person.
- (dd) "**Plan**" means this stock option plan as may be amended from time to time.
- (ee) "**Person**" means a Company or an individual.
- (ff) "**Personal Representative**" means:
  - (i) in the case of a deceased Option Holder, the executor or administrator of the deceased duly appointed by a court or public authority having jurisdiction to do so; and
  - (ii) in the case of an Option Holder who, for any reason, is unable to manage his or her affairs, the person entitled by law to act on behalf of such Option Holder.
- (gg) "**Regulatory Authorities**" means all stock exchanges and other organized trading facilities on which the Corporation's Shares are listed and all securities commissions or similar securities regulatory bodies having jurisdiction over the Corporation.
- (hh) "**Re-Organization Event**" has the meaning given in **Section 3.8** of this Plan.
- (ii) "**Securities Laws**" means securities legislation, securities regulation and securities rules, as amended, and the policies, notices, instruments and blanket orders in force from time to time that govern or are applicable to the Corporation or to which it is subject.
- (jj) "**Share**" or "**Shares**" means, as the case may be, one or more common shares without par value in the capital stock of the Corporation as constituted on the Effective Date or, in the event of an adjustment contemplated by **Section 3.5** of this Plan, such other

shares or securities to which an Option Holder may be entitled upon the due exercise of an Option as a result of such adjustment.

- (kk) "**Share Compensation Arrangement**" means a stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism of the Corporation involving the issuance or potential issuance of Shares to one or more Directors, Employees or Consultants, including a share purchase from treasury which is financially assisted by the Corporation by way of a loan, guarantee or otherwise.
- (ll) "**Termination Date**" means:
  - (i) in the case of the resignation of the Option Holder as an Employee of the Corporation, the date that the Option Holder provides notice of his or her resignation as an Employee of the Corporation to the Corporation; or
  - (ii) in the case of the termination of the Option Holder as an Employee of the Corporation by the Corporation for any reason other than death, the effective date of termination set out in the Corporation's notice of termination of the Option Holder as an Employee of the Corporation to the Option Holder; or
  - (iii) in the case of the termination of the written contract of the Option Holder to provide consulting services or Investor Relations Activities to the Corporation, the effective date of termination set out in any notice provided by one of the parties to the written contract to the other party; or
  - (iv) the effective date of termination of a Director, Employee or Consultant pursuant to an order made by any Regulatory Authority having jurisdiction to so order.
- (mm) "**Tier 1 Issuer**" has the meaning ascribed thereto in Policy 1.1 of the TSX-V Corporate Finance Manual.
- (nn) "**Tier 2 Issuer**" has the meaning ascribed thereto in Policy 1.1 of the TSX-V Corporate Finance Manual.
- (oo) "**TSX-V**" means the TSX Venture Exchange.
- (pp) "**Voting Share**" means a security of the Corporation that:
  - (i) is not a debt security; and
  - (ii) carries a voting right either under all circumstances or under some circumstances that have occurred and are continuing.

1.2 **Choice of Law.** This Plan is established under and the provisions of this Plan will be subject to and interpreted and construed in accordance with the laws of the Province of Ontario.

1.3 **Headings.** The headings used herein are for convenience only and are not to affect the interpretation of this Plan.

**ARTICLE 2**  
**PURPOSE AND PARTICIPATION**

2.1 **Purpose.** The purpose of this Plan is to provide the Corporation with a share-related mechanism to attract, retain and motivate qualified Directors, Employees and Consultants, to reward such of those Directors, Employees and Consultants as may be granted Options under this Plan by the Board from time to time for their contributions toward the long term goals and success of the Corporation and to enable and encourage such Directors, Employees and Consultants to acquire Shares as long term investments and proprietary interests in the Corporation.

2.2 **Participation.** **THE BOARD WILL, FROM TIME TO TIME AND IN ITS SOLE DISCRETION, DETERMINE THOSE DIRECTORS, EMPLOYEES AND CONSULTANTS (AND, WHEN APPLICABLE, TO A COMPANY WHOLLY OWNED BY ANY SUCH DIRECTOR OR EMPLOYEE), IF ANY, TO WHOM OPTIONS ARE TO BE GRANTED. THE BOARD MAY ONLY GRANT OPTIONS TO AN EMPLOYEE, CONSULTANT OR MANAGEMENT COMPANY EMPLOYEE IF SUCH EMPLOYEE, CONSULTANT OR MANAGEMENT COMPANY EMPLOYEE IS A *bona fide* Employee, Consultant or Management Company Employee of the Corporation or a subsidiary of the Corporation, as the case may be.** The Board may, in its sole discretion, grant the majority of the Options to Insiders of the Corporation. However, in no case will the issuance of Shares upon the due exercise of Options granted under this Plan, or in any proposed or previously existing Share Compensation Arrangement, result in (in each case, as determined on the Grant Date):

- (a) the number of Shares reserved for issuance pursuant to stock options granted to Insiders exceeding 10% of the Corporation's issued and outstanding Shares;
- (b) the grant to Insiders, within any twelve-month period, of Options reserving for issuance a number of Shares exceeding in the aggregate 10% of the Corporation's issued and outstanding Shares;
- (c) the grant to any one individual, within any twelve-month period (unless the Corporation is a Tier 1 Issuer and has obtained disinterested Shareholder approval), Options reserving for issuance a number of Shares exceeding in the aggregate 5% of the Corporation's issued and outstanding Shares;
- (d) the grant to all Persons engaged by the Corporation to provide Investor Relations Activities, within any twelve-month period, of Options reserving for issuance a number of Shares exceeding in the aggregate 2% of the Corporation's issued and outstanding Shares; or
- (e) the grant to any one Consultant, in any twelve-month period, of Options reserving for issuance a number of Shares exceeding in the aggregate 2% of the Corporation's issued and outstanding Shares.

2.3 **Notification of Grant.** Following the approval by the Board of the granting of an Option, the Administrator will notify the Option Holder in writing of the award and will enclose with such notice the Option Agreement representing the Option so granted.

2.4 **Copy of Plan.** Each Option Holder, concurrently with the notice of the award of the Option, will, upon written request, be provided with a copy of this Plan and a copy of any amendment to this Plan will be promptly provided by the Administrator to each Option Holder.

2.5 **Limitation.** This Plan does not give any Option Holder that is a Director the right to serve or continue to serve as a Director of the Corporation, does not give any Option Holder that is an Employee the right to be or to continue to be employed by the Corporation and does not give any Option Holder that is a Consultant the right to be or continue to be retained or engaged by the Corporation as a consultant for the Corporation.

2.6 **Filing Requirements.** Each Option Holder, as a pre-condition of any grant of Options under this Plan, shall execute and deliver to the Corporation all forms and documents required to be filed with any Regulatory Authority or under Securities Laws including, without limitation:

- (a) if an Option Holder is not an individual, a Certification and Undertaking Required from a Company Granted an Incentive Stock Option(TSX-V Form 4F);
- (b) if an Option Holder is a new Insider or is engaged to provide Investor Relations Activities, a Personal Information Form (TSX-V Form 2A); and
- (c) any other forms or documents as may be required by the Corporation based on the advice of its counsel.

### ARTICLE 3 TERMS AND CONDITIONS OF OPTIONS

3.1 **Board to Issue Shares.** The Shares to be issued to Option Holders upon the exercise of Options will be previously authorized but unissued Shares in the capital stock of the Corporation.

3.2 **Number of Shares Reserved.** Subject to adjustment as provided for in Section 3.8 of this Plan and any subsequent amendment to this Plan, the number of Shares reserved for issuance and which will be available for purchase pursuant to Options granted under this Plan will not exceed that number (the "**Limit**") which represents 20% of the issued and outstanding Shares in the capital of the Corporation as at the date of most recent shareholder approval (which, as of the Effective Date, is 11,728,683, being 20% of the issued and outstanding 58,643,413 Shares). The Limit will include the 6,005,032 Shares which have been reserved for issuance pending the due exercise of the following stock options (collectively, the "**Existing Options**"): (i) 5,855,032 existing stock options outstanding under Kaboose Inc.'s (a predecessor of the Corporation) May 18, 2004 stock option plan; and (ii) 150,000 existing stock options outstanding under Iron Springs Capital Corp.'s (the other predecessor of the Corporation) May 20, 2005 stock option plan, in accordance with provisions pertaining to adjustments and reorganization of those stock option plans, after which time both stock option plans will terminate. Notwithstanding the foregoing, none of the terms and conditions of the Existing Options will be altered by their inclusion as Options under this Plan and are Existing Options to be exercisable by the holders thereof without further shareholder or regulatory approvals on the same terms and conditions as originally granted. If any Option expires or otherwise terminates for any reason without having been exercised in full, the number of Shares in respect of which Option expired or terminated, as the case may be, will again be available for the purposes of this Plan.

**3.3 Term of Option.** Subject to **Section 3.4**, the Expiry Date of an Option will be the date so fixed by the Board at the time the particular Option is granted, provided that such date will be no later than the fifth (5<sup>th</sup>) anniversary of the Grant Date of such Option if the Corporation is a Tier 2 Issuer on the Grant Date and the tenth (10<sup>th</sup>) anniversary of the Grant Date of such Option if the Corporation is a Tier 1 Issuer on the Grant Date.

**3.4 Termination of Option.** Subject to such other terms or conditions that may be attached to Options granted hereunder, an Option Holder may exercise an Option in whole or in part at any time or from time to time during the Exercise Period. Any Option or part thereof not exercised within the Exercise Period will terminate and become null, void and of no effect as of 5:00 p.m. (Toronto time) on the Expiry Date. The Expiry Date of an Option will be the earlier of the date so fixed by the Board at the time the Option is granted and the date established, if applicable, in **subsections (a) to (d)** below:

(a) Death of Option Holder

In the event that the Option Holder should die while he or she is still a Director (if he or she holds his or her Option as a Director), an Employee (if he or she holds his or her Option as an Employee) or a Consultant (if he or she holds his or her Option as a Consultant), the Expiry Date will be the first anniversary of the Option Holder's date of death.

(b) Ceasing to Hold Office

In the event that the Option Holder holds his or her Option as a Director of the Corporation and such Option Holder ceases to be a Director of the Corporation other than by reason of death, the Expiry Date of the Option will not exceed the 90<sup>th</sup> day following the date the Option Holder ceases to be a Director of the Corporation unless the Option Holder ceases to be a Director of the Corporation as a result of:

- (i) ceasing to meet the qualifications of a director set forth in the CBCA; or
- (ii) an ordinary resolution having been passed by the shareholders of the Corporation pursuant the CBCA; or
- (iii) an order made by any Regulatory Authority having jurisdiction to so order,

in which case the Expiry Date will be the date the Option Holder ceases to be a Director of the Corporation.

(c) Ceasing to be an Employee or Consultant

In the event that the Option Holder holds his or her Option as an Employee or Consultant of the Corporation and such Option Holder ceases to be an Employee or Consultant of the Corporation other than by reason of death, the Expiry Date of the Option will not exceed the 90<sup>th</sup> day following the Termination Date unless the Option Holder ceases to be:

- (i) an Employee of the Corporation as a result of termination for Cause; or

- (ii) an Employee or Consultant of the Corporation as a result of an order made by any Regulatory Authority having jurisdiction to so order,

in which case the Expiry Date will be the Termination Date.

(d) Ceasing to be a Consultant Providing Investor Relations Activities

Notwithstanding **subsections 3.4(a), (b) and (c)** above, in the event that the Option Holder holds his or her Option as a Person engaged to provide Investor Relations Activities and such Option Holder ceases to be so engaged other than by reason of death, the Expiry Date of the Option will not exceed the 30<sup>th</sup> day following the Termination Date unless the Option Holder ceases to be so engaged as a result of:

- (i) termination for Cause; or
- (ii) an order made by any Regulatory Authority having jurisdiction to so order,

in which case the Expiry Date will be the Termination Date.

(e) Bankruptcy

In the event that an Option Holder commits an act of bankruptcy or any proceeding is commenced against the Option Holder under the *Bankruptcy and Insolvency Act* (Canada) or other applicable bankruptcy or insolvency legislation in force at the time of such bankruptcy or insolvency and such proceeding remains undismissed for a period of thirty (30) days, no Option held by such Option Holder may be exercised following the date on which such Option Holder commits such act of bankruptcy or such proceeding remains undismissed, as the case may be.

Notwithstanding anything contained in this Plan, in no case will an Option be exercisable after the fifth (5<sup>th</sup>) anniversary of the Grant Date of the Option if the Corporation is a Tier 2 Issuer on the Grant Date, or after the tenth (10<sup>th</sup>) anniversary of the Grant Date of the Option if the Corporation is a Tier 1 Issuer on the Grant Date.

**3.5 Exercise Price.** Other than the Existing Options, the price at which an Option Holder may purchase a Share upon the exercise of an Option (the "**Exercise Price**") will be determined by the Board and set forth in the Option Agreement issued in respect of such Option and, in any event, will not be less than the Discounted Market Price of the Corporation's Shares as of the Grant Date. Notwithstanding anything else contained in this Plan, in no case will the Discounted Market Price be less than the minimum prescribed by each of the organized trading facilities as would apply to the Grant Date in question.

**3.6 Additional Terms.** Subject to all applicable Securities Laws of all applicable Regulatory Authorities, the Board may attach other terms and conditions to the grant of a particular Option, such terms and conditions to be referred to in the Option Agreement at the time of grant. These terms and conditions may include, but are not necessarily limited to, the following:

- (a) providing that an Option expires on a date other than as provided for herein;



- (b) providing that a portion or portions of an Option vest after certain periods of time or upon the occurrence of certain events, or expire after certain periods of time or upon the occurrence of certain events;
- (c) providing that an Option be exercisable immediately to individuals determined at the discretion of the Board, in full, notwithstanding that it may have vesting provisions, upon the occurrence of certain events, such as a friendly or hostile take-over bid for the Corporation or as the Board may so direct in its own and sole discretion; and
- (d) providing that an Option issued to, held by or exercised by an Option Holder who is a citizen or resident of the United States of America, and otherwise meeting the statutory requirements, be treated as an "**Incentive Stock Option**" as that term is defined for purposes of the United States of America Internal Revenue Code of 1986, as amended.

**3.7 Non-Transferability of Options.** The Options are not assignable, transferable or negotiable (whether by operation of law or otherwise) and may not be assigned or transferred, provided however that the Personal Representative of an Option Holder may, to the extent permitted by **Section 4.1** of this Plan, exercise the Option within the Exercise Period. Upon any attempt to assign, transfer, negotiate, pledge, hypothecate or otherwise dispose of or transfer an Option contrary to this **Section 3.7** of this Plan, or upon the levy of any attachment or similar process upon an Option, the Option and all rights, benefits and privileges arising thereunder or therefrom, at the sole discretion and election of the Corporation, shall cease and terminate and be of no further force or affect whatsoever.

**3.8 Adjustments.** If prior to the complete exercise of an Option the Shares are consolidated, subdivided, converted, exchanged or reclassified or in any way substituted for (collectively, a "**Re-Organization Event**"), an Option, to the extent that it has not been exercised, will be adjusted by the Board in accordance with such Re-Organization Event in the manner the Board deems appropriate. No fractional Shares will be issued upon the exercise of the Options and accordingly, if as a result of the Re-Organization Event, an Option Holder would become entitled to a fractional Share, such Option Holder will have the right to purchase only the next lowest whole number of Shares and no payment or other adjustment will be made with respect to the fractional interest so disregarded.

**3.9 Vesting Requirement.** Notwithstanding any other provision hereof:

- (a) Options granted to Persons engaged to provide Investor Relations Activities shall vest in stages over a period of 12 months from the Grant Date with no more than  $\frac{1}{4}$  of any such Options granted vesting in any three-month period; and
- (b) in respect of Options granted to Persons other than those referred to in the previous paragraph, and other than the Existing Options, no more than  $\frac{1}{4}$  of any such Options granted shall vest in any three-month period.

**3.10 Hold Periods.** In addition to any resale restrictions under Securities Laws, any Option granted under this Plan and any Shares issued upon the due exercise of any such Option so granted will be subject to hold periods that are in compliance with TSX-V policies in effect at the time of the grant of such Options and the issuance of any Shares upon the due exercise of any such Options so granted.

3.11 **No Rights as Shareholders.** An Option Holder shall not have any rights as a shareholder of the Corporation with respect to any of the Shares covered by such Option until the date of issuance of a certificate for Shares upon the due exercise of such Option, in full or in part, and then only with respect to the Shares represented by such certificate or certificates. Without in any way limiting the generality of the foregoing, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such share certificate is issued

#### **ARTICLE 4 EXERCISE OF OPTION**

4.1 **Exercise of Option.** An Option may be exercised only by the Option Holder or the Personal Representative of the Option Holder. Subject to the provisions of the Plan, an Option Holder or the Personal Representative of an Option Holder may exercise an Option in whole or in part at any time or from time to time during the Exercise Period up to 5:00 p.m. (Toronto time) on the Expiry Date by delivering to the Administrator an Exercise Notice, the applicable Option Agreement and a certified cheque or bank draft payable to "Kaboose Inc." in an amount equal to the aggregate Exercise Price of the Shares to be purchased pursuant to the exercise of the Option.

4.2 **Issue of Share Certificates.** As soon as practicable following the receipt of the Exercise Notice, the Administrator will cause to be delivered to the Option Holder a certificate for the Shares so purchased. If the number of Shares so purchased is less than the number of Shares subject to the Option Agreement, the Option Holder will surrender the Option Agreement and the Administrator will forward a new Option Agreement to the Option Holder concurrently with delivery of the Share certificate for the balance of Shares available under the Option.

4.3 **Condition of Issue.** The Options and the issue of Shares by the Corporation pursuant to the exercise of Options are subject to the terms and conditions of this Plan and compliance with the rules and policies of all applicable Regulatory Authorities to the granting of such Options and to the issuance and distribution of such Shares, and to all applicable Securities Laws. The Option Holder agrees to comply with all such laws, regulations, rules and policies and agrees to furnish to the Corporation any information, reports or undertakings required to comply with and to fully cooperate with, the Corporation in complying with such laws, regulations, rules and policies. Notwithstanding any of the provisions contained in the Plan or in any Option, the Corporation's obligation to issue Shares to an Option Holder pursuant to the exercise of any Option granted under the Plan shall be subject to:

- (a) completion of such registration or other qualification of such Shares or obtaining approval of such Regulatory Authority as the Corporation shall determine to be necessary or advisable in connection with the authorization, issuance or sale thereof;
- (b) the admission of such Shares to listing on any stock exchange on which the Shares may then be listed;
- (c) the receipt from the Option Holder of such representations, warranties, agreements and undertakings, as the Corporation determines to be necessary or

advisable in order to safeguard against the violation of the Securities Laws of any jurisdiction; and

- (d) the satisfaction of any conditions on exercise prescribed pursuant to **Section 3.6** and **Article 5** of this Plan.

## ARTICLE 5 ADMINISTRATION

5.1 **Administration.** This Plan will be administered by the Administrator on the instructions of the Board. The Board may make, amend and repeal at any time and from time to time such regulations not inconsistent with this Plan as it may deem necessary or advisable for the proper administration and operation of this Plan and such regulations will form part of this Plan. The Board may delegate to the Administrator or any director or other senior officer or employee of the Corporation such administrative duties and powers as it may see fit.

5.2 **Board Powers.** The Board shall have the power, where consistent with the general purpose and intent of the Plan and subject to the specific provisions of the Plan:

- (a) to establish policies and to adopt rules and regulations for carrying out the purposes, provisions and administration of the Plan;
- (b) to interpret and construe the Plan and to determine all questions arising out of the Plan or any Option, and any such interpretation, construction or determination made by the Board shall be final, binding and conclusive for all purposes;
- (c) to determine the number of Shares reserved for issuance by each Option;
- (d) to determine the Exercise Price of each Option;
- (e) to determine the time or times when Options will be granted and exercisable;
- (f) to determine if the Shares which are issuable on the due exercise of an Option will be subject to any restrictions upon the due exercise of such Option; and
- (g) to prescribe the form of the instruments and certificates relating to the grant, exercise and other terms of Options.

5.3 **Board Discretion.** The Board may, in its discretion, require as conditions to the grant or exercise of any Option that the Option Holder shall have:

- (a) represented, warranted and agreed in form and substance satisfactory to the Corporation that the Option Holder is acquiring and will acquire such Option and the Shares to be issued upon the exercise thereof or, as the case may be, is acquiring such Shares, for his, her or its own account, for investment and not with a view to or in connection with any distribution, that the Option Holder has had access to such information as is necessary to enable him, her or it to evaluate the merits and risks of

such investment and that the Option Holder is able to bear the economic risk of holding such Shares for an indefinite period;

- (b) agreed to restrictions on transfer in form and substance satisfactory to the Corporation and to an endorsement on any option agreement or certificate representing the Shares making appropriate reference to such restrictions; and
- (c) agreed to indemnify the Corporation in connection with the foregoing.

**5.4 Board Requirements.** Any Option granted under the Plan shall be subject to the requirement that, if at any time counsel to the Corporation shall determine that the listing, registration or qualification of the Shares issuable upon due exercise of such Option upon any securities exchange or under any Securities Laws of any jurisdiction, or the consent or approval of Regulatory Authority, is necessary as a condition of, or in connection with, the grant or exercise of such Option or the issuance or purchase of Shares thereunder, such Option may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Board. Nothing herein shall be deemed to require the Corporation to apply for or to obtain such listing, registration, qualification, consent or approval.

**5.5 Interpretation.** The interpretation by the Board of any of the provisions of this Plan and any determination by it pursuant thereto will be final and conclusive and will not be subject to any dispute by any Option Holder. No member of the Board or any person acting pursuant to authority delegated by it hereunder will be liable for any action or determination in connection with this Plan made or taken in good faith and each member of the Board and each such person will be entitled to indemnification with respect to any such action or determination in the manner provided for by the Corporation.

## ARTICLE 6 AMENDMENT AND TERMINATION

**6.1 Prospective Amendment.** The Board may from time to time amend this Plan and the terms and conditions of any Option thereafter to be granted and, without limiting the generality of the foregoing, may make such amendment for the purpose of meeting any changes in any relevant Securities Laws applicable to this Plan, any Option or the Shares, or for any other purpose which may be permitted by all relevant Securities Laws provided always that any such amendment will not alter the terms or conditions of any Option or impair any right of any Option Holder pursuant to any Option granted prior to such amendment.

**6.2 Retrospective Amendment.** The Board may from time to time retrospectively amend this Plan and, with the consent of the affected Option Holders, retrospectively amend the terms and conditions of any Options that have been previously granted.

**6.3** Notwithstanding anything contained to the contrary in this Plan or in any resolution of the Board in implementation thereof:

- (a) in the event the Corporation proposes to amalgamate, merge or consolidate with any other corporation (other than a wholly-owned subsidiary) or to liquidate, dissolve or wind-up, or in the event an offer to purchase or repurchase the Shares of the Corporation or any part thereof shall be made to all or substantially all holders of Shares of the Corporation, the Corporation shall have the right, upon written notice thereof to each Option Holder holding Options under the Plan, to permit the exercise of all such Options within the 20 day period next following the date of such notice and to determine that upon the expiration of such 20 day period, all rights of the Option Holder to such Options or to exercise same (to the extent not theretofore exercised) shall *ipso facto* terminate and cease to have further force or effect whatsoever;
- (b) in the event of the sale by the Corporation of all or substantially all of the assets of the Corporation as an entirety or substantially as an entirety so that the Corporation shall cease to operate as an active business, any outstanding Option may be exercised as to all or any part of the Optioned Shares in respect of which the Option Holder would have been entitled to exercise the Option in accordance with the provisions of the Plan at the date of completion of any such sale at any time up to and including, but not after the earlier of: (i) the close of business on that date which is thirty (30) days following the date of completion of such sale; and (ii) the close of business on the Expiry Date of the Option; but the Option Holder shall not be entitled to exercise the Option with respect to any other Shares;
- (c) subject to the rules of any relevant Regulatory Authority, the Board may, by resolution, extend the expiration date of any Option. The Board shall not, in the event of any such advancement or extension, be under any obligation to advance or extend the date on or by which Options may be exercised by any other Option Holder; and
- (d) the Board may, by resolution, but subject to requirements of applicable Regulatory Authorities and Securities Laws, decide that any of the provisions hereof concerning the effect of termination of the Option Holder's employment shall not apply to any Option Holder for any reason acceptable to the Board.

Notwithstanding the provisions of this **Section 6.3**, should changes be required to the Plan by any Regulatory Authority of any jurisdiction to which the Plan or the Corporation now is or hereafter becomes subject, such changes shall be made to the Plan as are necessary to conform with such requirements and, if such changes are approved by the Board, the Plan, as amended, shall be filed with the records of the Corporation and shall remain in full force and effect in its amended form as of and from the date of its adoption by the Board.

**6.4 Regulatory Authority Approval.** This Plan and any amendments hereto are subject to all necessary approvals of the applicable Regulatory Authorities.

**6.5 Disinterested Shareholder Approval.** Disinterested Shareholder approval must be obtained for any reduction in the Exercise Price if the Option Holder is an Insider of the Corporation at the time of the proposed reduction. Furthermore, disinterested Shareholder approval must be obtained if the number of Shares reserved for issuance under the Plan to be granted to Insiders exceeds 10% of

the issued and outstanding Shares and if the grant of Options to Insiders, within any 12-month period, exceeds 10% of the Corporation's issued and outstanding Shares.

6.6 **Termination.** The Board may terminate this Plan at any time provided that such termination will not alter the terms or conditions of any Option or impair any right of any Option Holder pursuant to any Option granted prior to the date of such termination, which will continue to be governed by the provisions of this Plan.

6.7 **Agreement.** The Corporation and every Option granted hereunder will be bound by and subject to the terms and conditions of this Plan. By accepting an Option granted hereunder, the Option Holder has expressly agreed with the Corporation to be bound by the terms and conditions of this Plan.

6.8 **Effective Date of Plan.** Upon approval by the Board, this Plan shall be deemed to be effective as of the Effective Date.

6.9 **Governing Law.** This Plan and all matters to which reference is made herein shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

## SCHEDULE "A"

*Without prior written approval of the TSX Venture Exchange and compliance with all applicable securities legislation, the securities represented by this agreement may not be sold, transferred, hypothecated or otherwise traded on or through the facilities of the TSX Venture Exchange or otherwise in Canada or to or for the benefit of a Canadian resident until **[four months and one day from the Grant Date]**.*

*Unless otherwise defined herein, all capitalized terms will have the meanings specified in a stock option plan adopted by Kaboose Inc. effective as of October ●, 2005 (the "**Plan**").*

### OPTION AGREEMENT

THIS AGREEMENT made as of ●, 200● (the "**Effective Date**").

BETWEEN:

**KABOOSE INC,**

(the "**Corporation**")

OF THE FIRST PART

- and -

●

(the "**Optionee**")

OF THE SECOND PART

For good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by each of the parties hereto), the Corporation and the Optionee hereby agree as follows:

1. **Grant of Option**

1.1 The Corporation hereby grants to the Optionee pursuant to the terms of the Plan the right and option (the "**Option**") to purchase all or any part of an aggregate of up to ● Shares at a purchase price of \$● per Share expiring on ● and on the terms and conditions set forth in this Agreement.

2. **Vesting**

2.1 Notwithstanding Section 1 above or any other provision of this Agreement, legal and beneficial title to the Option granted to the Optionee hereunder, in respect of the Shares and all rights, privileges and benefits arising and flowing therefrom or to arise or flow therefrom hereafter, shall vest in the Optionee and the Optionee shall be entitled to exercise said Option to purchase the Shares only in the proportion and on the dates (the "**Vesting Dates**") set out below, provided that the

NON-TRANSFERABLE

Optionee is a [Consultant or Employee or Director] of the Corporation on such Vesting Date (and has been a [Consultant or Employee or Director] of the Corporation continuously from the date hereof):

Vesting Date	Number of Shares subject to the Option	Exercise Price
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Total:</b>	<input type="checkbox"/>	

### 3. Exercise of Option

3.1 Subject to the provisions of this Agreement, including, without limitation, **Section 2** above, the Option may be exercised from time to time prior to the Expiry Time (as hereinafter defined) by delivery to the Corporation at its registered office of an executed Exercise Notice (attached to the Option Agreement as Exhibit "I") addressed to the President of the Corporation specifying the number of Shares with respect to which the Option is being exercised and accompanied by payment in full, by cash or certified cheque, of the purchase price of the Shares then being purchased. Subject to any provisions of this Agreement to the contrary, certificates for such Shares shall be issued and delivered to the Optionee within a reasonable time following the receipt of such notice and payment.

3.2 Notwithstanding any provisions contained in this Agreement, the Corporation's obligation to issue Shares to the Optionee pursuant to the exercise of the Option shall be subject to: (i) receipt of any required shareholder approval; (ii) completion of such registration or other qualification of such Shares or obtaining approval of such governmental or regulatory authority as the Corporation shall determine to be necessary or advisable in connection with the authorization, issuance or sale thereof; (iii) the admission of such Shares to listing on any stock exchange or market on which the Shares may then be listed; and (iv) the receipt from the Optionee of such representations, warranties, agreements and undertakings as the Corporation determines to be necessary or advisable in order to safeguard against the violation of the securities laws of any jurisdictions. Nothing contained in this Agreement shall be deemed to require the Corporation to apply for or obtain any such registration, qualification, approval or listing. The Optionee hereby acknowledges and agrees that he has had access to such information as is necessary to enable him to evaluate the merits and risks of acquiring Shares pursuant to the exercise of the Option and that he is able to bear the economic risk of holding such Shares for an indefinite period.

### 4. No Assignment

4.1 The Option is personal to the Optionee and non-assignable (whether by operation of law or otherwise). Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of the Option contrary to the provisions of this Agreement, or upon the levy of any attachment or similar process upon the Option, the Option shall, at the election of the Corporation, cease and terminate and be of no further force or effect whatsoever.



## 5. Expiration

5.1 Subject to the terms and conditions set out in this Agreement, including the vesting conditions set out in **Section 2** above and the termination provisions set out in Section 6 below, the Optionee shall have the right to exercise the Option with respect to all or any part of the Shares to the extent vested at any time or from time to time after the date hereof and prior to the close of business on  (the "**Expiry Time**"). On the Expiry Time, the Option shall forthwith expire and terminate and be of no further force or effect whatsoever with respect to the unexercised balance of the Shares available under the Option, whether vested or not.

## 6. Termination of Employment; Death; Bankruptcy

6.1 Subject to the provisions of this Agreement and this Section 6 and to any express resolution passed with respect to the Option by the Board of Directors of the Corporation (the "**Board**") or by any committee of the Board established by the Board to administer the Plan (the "**Committee**"), the Option and all rights to purchase Shares pursuant thereto shall immediately expire, except to the extent vested in which case they shall expire and terminate on the [**thirtieth (30<sup>th</sup>)**] day following the date the Optionee ceases to be a [**"Consultant" or "Employee" or "Director"**] within the meaning of **Section 1.1** of the Plan.

6.2 Subject to the provisions of this Agreement and this **Section 6**, if the Optionee shall die prior to the full exercise of the Option, his personal representatives, heirs or legatees may, at any time within [**six (6)**] months after the date of such death, exercise the Option with respect to the unexercised balance of the Shares to the extent vested, subject to the terms of the Option but only to the same extent to which the Optionee could have exercised the Option immediately before the date of such death. In no event, however, shall the Option be exercisable after the Expiry Time.

6.3 In the event that the Optionee commits an act of bankruptcy or any proceeding is commenced against the Optionee under the *Bankruptcy and Insolvency Act* (Canada) or other applicable bankruptcy or insolvency legislation in force at the time of such bankruptcy and such proceeding remains undismissed for a period of [**thirty (30)**] days, the Option may not be exercised following the date on which the Optionee commits such act of bankruptcy or such proceeding remains undismissed, as the case may be.

## 7. Rights as a Shareholder

7.1 An Optionee shall not have any rights as a shareholder of the Corporation with respect to any of the Shares subject to the Option until the date of issuance of a certificate for such Shares upon the exercise of the Option, in full or in part, and then only with respect to the Shares represented by such certificate or certificates. Without in any way limiting the generality of the foregoing, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such share certificate is issued.

## 8. Inconsistency with Plan

8.1 The parties hereto agree that in the event this Agreement is inconsistent with the Plan the Plan shall prevail.

## 9. Certain Adjustments

9.1 In the event that the Shares are at any time changed or affected as a result of the declaration of a stock dividend thereon or their subdivision or consolidation, the number of Shares reserved for the Option shall be adjusted accordingly by the Board or the Committee to such extent as they deem proper in their discretion. In such event, the number of, and the price payable for, the Shares that are then subject to the Option may also be adjusted by the Board or the Committee to such extent, if any, as they deem proper in their discretion.

9.2 If at any time after the date of this Agreement and prior to the expiration of the term of the Option, the Shares shall be reclassified, reorganized or otherwise changed, otherwise than as specified in **Section 10.1** of this Agreement or, subject to the provisions of **subsection 10.1(a)** of this Agreement, the Corporation shall consolidate, merge or amalgamate with or into another corporation (the corporation resulting or continuing from such consolidation, merger or amalgamation being herein called the "**Successor Corporation**"), the Optionee shall be entitled to receive upon the subsequent exercise of the Option in accordance with the terms of this Agreement and shall accept in lieu of the number of Shares to which he was theretofore entitled upon such exercise but for the same aggregate consideration payable therefor, the aggregate number of shares of the appropriate class and/or other securities of the Corporation or the Successor Corporation (as the case may be) and/or other consideration from the Corporation or the Successor Corporation (as the case may be) that the Optionee would have been entitled to receive as a result of such reclassification, reorganization or other change or, subject to the provisions of **subsection 10.1(a)** of this Agreement, as a result of such consolidation, merger or amalgamation, if on the record date of such reclassification, reorganization or other change or the effective date of such consolidation, merger or amalgamation, as the case may be, he had been the registered holder of the number of Shares to which he was theretofore entitled upon such exercise.

## 10. Amendments to the Option

10.1 Notwithstanding anything to the contrary contained in this Agreement:

- (a) in the event the Corporation proposes to amalgamate, merge or consolidate with any other corporation (other than a wholly-owned subsidiary) or to liquidate, dissolve or wind-up, or in the event an offer to purchase or repurchase the Shares or any part thereof shall be made to all or substantially all holders of the Shares, the Corporation shall have the right, upon written notice thereof to the Optionee, to permit the exercise of the Option within the **[20 day]** period next following the date of such notice and to determine that upon the expiration of such **[20 day]** period, all rights of the Optionee to the Option or to exercise same (to the extent not theretofore exercised) shall *ipso facto* terminate and cease to have further force or effect whatsoever;
- (b) in the event of the sale by the Corporation of all or substantially all of the assets of the Corporation as an entirety or substantially as an entirety so that the Corporation shall cease to operate as an active business, the Option may be exercised as to all or any part of the Shares subject to the Option in respect of which the Optionee would have been entitled to exercise the Option in accordance with the provisions of this Agreement at the date of completion of any such sale at any time up to and including, but not after the earlier of: (i) the close of business on that date which is **[thirty (30)]**

days following the date of completion of such sale; and (ii) the close of business on the expiration date of the Option; but the Optionee shall not be entitled to exercise the Option with respect to any other Shares; and

- (c) subject to the rules of any relevant stock exchange or other regulatory authority, the Board may, by resolution, advance the date on which any Option may be exercised or extend the expiration date of the Option.
- (d) The Optionee hereby acknowledges and agrees that the Board may at any time by resolution terminate the Plan. In such event, the Option if vested and outstanding may be exercised by the Optionee for a period of **[thirty (30)]** days after the date on which the Corporation shall have notified the Optionee of the termination of the Plan, but only to the same extent as the Optionee could have exercised the Option immediately prior to the date of such notification.

## 11. Notice

11.1 All communications and payments provided for under this Agreement shall be in writing and shall be deemed to be given when delivered in person or deposited in the mail, first class, certified or registered, return receipt requested, with proper postage prepaid and,

- (a) if to the Optionee, addressed to:

Phone No.:

Fax No.:

- (b) if to the Corporation, addressed to:

**Kaboose Inc.**

1400 – 505 University Avenue,

Toronto, Ontario, Canada

M5G 1X3

Attention: Jonathan Pollack, Chief Financial Officer

Phone No.: 416-593-3000

Fax No.: 416-593-4658

in either case with a copy to:

**WeirFoulds LLP**

130 King Street West

Suite 1600, Exchange Tower

Toronto, ON M5X 1J5

Attention: Sanjay Joshi

Phone No. 416-947-5013

Fax No. 416-365-1876

12. **Time of Essence**

12.1 Time shall be of the essence of this Agreement and each and every part hereof.

13. **Binding Effect**

13.1 This Agreement shall enure to the benefit of and be binding upon the parties hereto, the successors of the Corporation and the executor, administrator, heirs and personal representatives of the Optionee. This Agreement shall not be assignable by the Optionee.

14. **Headings**

14.1 The section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

15. **Amendment**

15.1 This Agreement may be amended only by a written instrument signed by each of the parties hereto.

16. **Governing Law**

16.1 This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

17. **Duplicate Originals**

17.1 It is hereby acknowledged by the parties hereto that this Agreement has been signed in duplicate only, one original executed copy delivered to the Optionee and one delivered to the Corporation.

18. **Paramountcy**

18.1 To the extent there is any inconsistency or ambiguity between this Agreement and any other employment or consulting agreement, the terms of this Agreement shall govern to the extent of such inconsistency or ambiguity.

**IN WITNESS WHEREOF** the parties hereto have executed this Agreement on the date first above written.

**SIGNED, SEALED & DELIVERED**  
in the presence of

)  
)  
)  
)  
)  
)  
)  
)  
)  
)  
)

**KABOOSE INC.**

Per: \_\_\_\_\_

Name:

Title:

\_\_\_\_\_  
Witness:

\_\_\_\_\_

**EXHIBIT "I"**

**EXERCISE NOTICE**

TO: **KABOOSE INC.**  
AND TO: **THE BOARD OF DIRECTORS THEREOF**

*Unless otherwise defined herein, all capitalized terms will have the meanings specified in a stock option plan adopted by Kaboose Inc. effective as of October ●, 2005.*

The undersigned holder of the Options evidenced by the Option Agreement hereby subscribes for \_\_\_\_\_ Shares of the Corporation pursuant to such Options exercisable at an exercise price of Cdn\$\_\_\_\_\_ until the Expiry Time (or such other price as is determined pursuant to the Option Agreement) on the terms specified in such Option Agreement and enclosed herewith a certified cheque, bank draft or money order payable to the order of the Corporation in payment therefor.

The undersigned hereby irrevocably directs that the said Shares be issued in the name of the undersigned and delivered as follows:

<b>Name(s) in Full</b>	<b>Address(es)</b>	<b>SIN Number (if applicable)</b>	<b>Number(s) of Common Shares</b>	<b>Taxpayer Identification Number (if applicable)</b>
_____	_____	_____	_____	_____

(Please print full name in which Share certificates are to be issued. If any Shares are to be issued to a person or persons other than the holder, the holder must pay to the Corporation all exigible transfer taxes or other government charges.)

**DATED** this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Signature Guaranteed

\_\_\_\_\_  
Signature of Subscriber

\_\_\_\_\_  
Name of Subscriber

\_\_\_\_\_  
Address of Subscriber

- 9 Please check if the Share certificates are to be delivered at the office where this Exercise Notice is surrendered, failing which the certificates will be mailed.
- 9 Certificates will be delivered or mailed only after the transfer books of the Corporation have been opened for five business days after the due surrender of the Exercise Notice as aforesaid.

**CERTIFICATE OF IRON SPRINGS CAPITAL CORP.**

**DATE: October 17, 2005**

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities of Iron Springs Capital Corp. assuming Completion of the Qualifying Transaction.

*"Signed"*

---

**A. Murray Sinclair**  
President, Chief Executive Officer  
and Chief Financial Officer

**On Behalf of the Board:**

*"Signed"*

---

**K. Peter Miller**

*"Signed"*

---

**Stewart Robertson**

**CERTIFICATE OF KABOOSE INC.**

**DATE: October 17, 2005**

The foregoing as it relates to Kaboose Inc. constitutes full, true and plain disclosure of all material facts relating to the securities of Kaboose Inc.

*“Signed”*

---

**Jonathan Graff**  
President

*“Signed”*

---

**Jonathan Pollack**  
Chief Financial Officer

**On Behalf of the Board:**

*“Signed”*

---

**Jason DeZwirek**

*“Signed”*

---

**Michael Winton**